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ECONOMIC CONFLICT AND CONTROL

Proceedings of the Fifth Conference of
the Institute of Pacific Relations, Banff,
Canada, 14-26 August, 1933

EDITED BY
BRUNO LASKER
AND
W. L. HOLLAND



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PREFACE

THE Fifth Biennial Conference of the Institute of Pacific Relations was the first to be held on the American continent. This fact became significant in the development of the conference programme, which had been adopted two years earlier, at Shanghai, without relation to the seat of the conference: disturbances of helpful international relations in the Pacific, the conference revealed, have their origin as much in the western as in the eastern hemisphere. In an entirely different way, the setting of the conference made yet another valuable contribution to a more balanced understanding of Pacific problems: the peace and beauty of the immediate scene invited attention to larger perspectives than those envisaged in the crowded hours of city life, and to larger problems of human welfare than usually engage the minds of practical men. Here also an unhurried and easy comradeship was possible that went far to bridge differences in experience and temperament.

More successfully than at previous conferences, the members obeyed the injunction of the Chairman of the Pacific Council to take part as individuals, rather than with too constant and restrictive a consciousness of their national group membership. Another distinct advance over previous conferences was the separation of technical matters for discussion by special round tables with a limited membership freed from the necessity of explaining difficult matters in the language of lay people. It meant that the tendency to conflict between 'academic' and 'practical' approaches was less evident in the general round-table sessions than is often the case. There was, instead of mutual irritation, more of a real blending of scholarly knowledge, common sense, and practical experience brought to bear upon the questions under discussion. Each of the larger national groups, moreover, represented another happy blend which is not always present in international conferences—an age composition which ensured the values of ripe experience and of the impatience of youth. The industry and skill exemplified by many of the younger members both in the conference itself and in the preparation of data for it were recognized by the older 'war-horses' of international conferencing as happy auguries for the continuing vitality of the Institute.

The major theme of the conference was 'International Economic Conflict in the Pacific Area: Its Control and Adjustment'. A concerted plan of preparation for its discussion had been initiated soon after the 1931 Conference with the issue of an introductory pamphlet by the

Chairman of the International Programme Committee, Professor Hu Shih, a 'brief forecast' of the programme circulated to the National Councils and Institute members for discussion and criticism. This was followed, early in 1933, by a mimeographed 'Guide to the Banff Discussions' which, modified by criticism and suggestions, was finally placed before the conference members in printed form, together with pamphlets on 'The Purpose and Conduct of Round Tables' and on 'A Research Programme in the Pacific Area'—an up-to-date account of the policies and activities of the International Research Committee. The purpose of these three documents was to make clear the intimate relation of the Banff Conference programme to those of previous conferences and to the ongoing work of the Institute. To quote the 'Guide':

'The implications and purposes of the selection of the particular subjects contained in the Banff agenda cannot be understood in the light merely of the period subsequent to the Shanghai Conference (1931). The Institute does not carry on its activities by two-year periods; it does not jump suddenly from one area of concentration, either geographically or topically, to another in each biennium. On the contrary, there has been marked continuity in the pursuit of its researches, studies, and discussions. The deliberations of one conference have determined the subjects to be discussed at the next. The findings of research have pointed to the necessity for further investigations. Conferences and research, moreover, have mutually influenced the subsequent programme of the other. There has been, in short, a consistent and continuous search for comprehension of the affairs of the Pacific area.'

It could not, of course, have been foreseen at the Shanghai Conference that so soon vast plans of economic reorientation in the British Commonwealth and in the United States of America would make the whole world eager to understand more fully those fundamental causes of international conflict which have their roots in divergent national economic policies. But it was felt even then that the major troubles of the Pacific area could not be explained adequately in terms of diplomacy, of immediate business objectives, or of strategy—much less by the failures and iniquities of particular individuals, organizations, or parties. Hence the attempt—already successfully carried into the research programme of the Institute—was made to shift attention from the surface phenomena of friction to the more enduring differences in national and group interests and the possibilities of their harmonization or control.

This desire to get to the root of things which had shaped the agenda for the Banff Conference was a reflection of a larger trend among thoughtful people. For example, the communications (entirely unsolicited by the Secretariat) received at Banff from heads of governments

almost in their entirety emphasized the more fundamental needs. They included messages from the Prime Minister of Canada, from the President of the Executive Yuan of the National Government of China, the Prime Minister of Great Britain, the Prime Minister of New Zealand, Prince Iyesato Tokugawa of Japan, and the President of the United States. The same trend was noticeable in the addresses of a more formal character, which opened and closed the Banff proceedings, and the speeches at a dinner given by the Government of the Province of Alberta. On each of these occasions the point was made that it is not enough to study the points of friction in international relations, but that it is necessary also to understand the forces within each country that influence, and may even direct, national policy. Thus, at the very outset of the proceedings, Sir Robert Falconer, President of the Conference, acquainted the members with the struggles of different regions and groups in the Dominion—unified often by little more than their common allegiance to the throne of Great Britain—which shaped both its internal and its external policies. Sir Herbert Samuel warned members from the Orient not to be over-impressed by the glamour of Western civilization but also to learn from its failures and to note the growth of self-government as the only sound beginning of a policy directed towards averting clash and ensuring prosperity for all. Dr. Inazo Nitobé, in what was to be one of his last public addresses, spoke of intolerance and the trend towards economic self-sufficiency as the twin evils of our day. Of the latter he said:

‘Is it not an appalling challenge to our intelligence that, at the very time when we have learned to apply modern science to shorten the distances and increase the possibilities of intercourse between nations, we see arising on the pathway of trade increasing obstacles to block the free movement of goods and capital as well as people? . . . I do not profess the belief that all the movements of men and goods should be freed from all restraints. On the contrary, I believe that a reasonable number of measures for adjustment are necessary in the intercourse between nations in different stages of their development and with different standards of living. However, I believe with equal firmness that the excess of these restrictive measures will end in defeating their own purpose. Some nations are endowed with the material blessings of nature out of proportion to the size of their populations, while the reverse is the case with others. How to adjust these obvious inequalities with the principle of ‘live and let live’ is the supreme test of enlightened statesmanship.

‘The trend of economic self-sufficiency when carried to excess will inevitably create a psychology in the less fortunately situated countries that the only way to guarantee their own national economic security is to establish economic blocs of their own by bringing outside territories into their own political

orbit. If this policy again is carried to its logical conclusion it may finally divide the world into many isolated camps, and the rivalry resulting from it may end sooner or later in a great disaster for humanity. Is there not some other way to lift the world out of this predicament? That, I understand, is the main subject of study in the Institute this year.'

So, as the following pages will show, the unrehearsed theme running through the conference was the conflict between a contractive and an expansive movement in the economic relations of the Pacific area. The 'adjustments' sought, when the evidences of stress had been presented and analysed, were not simply those between national interests. On the one hand, there was seen within each nation a struggle for mastery of its resources; on the other, a new pattern of co-operative economic arrangements between particular nations and interested groups was seen to cut across the political map of the Pacific.

The first appearance of two new member groups of the Institute helped to throw into sharper relief than had been possible at previous conferences this pattern of economic relationships: both France and the Netherlands are not only great colonial powers in the Pacific area, but, in addition, have historical material interests in other sections of that area, particularly the Far East. In both cases a single group represented the mother country as well as the dependency—French Indo-China and the Netherlands East Indies. It so happened that the two French and four Dutch members also brought to the conference a truly scholarly temper and a knowledge, extending far beyond their own national interests, of the affairs of the Pacific as a whole.

Unfortunately it must be recorded that one important place in every round table and on every committee again remained unoccupied, the place of the Union of Soviet Socialist Republics. Elected unanimously at Hangchow, in 1931, to membership in the Institute, with a seat in the governing body, the Pacific Council, the Pacific Committee at Moscow had been in communication with the International Secretariat during the two-year period and had been visited in October 1932 by a representative of the Pacific Council, when both the Chairman of the Committee, Dr. Fedor N. Petroff, and an important member of the Government had expressed a desire for full participation in the preparation of data and the presence of, at least, an observer for the Committee at the conference itself. But lack of recognition of the Soviet Government by the Governments of Canada and the United States, and passport regulations that fall short of according visitors from the Soviet Union complete equality with representatives of other countries, prevented this proffered co-operation from materializing. The Pacific Council, in taking cognizance of this situation, not only expressed deep

regret but determined to make sure that the time and place for the next conference, in 1935, should be chosen with the fullest regard for the wishes of this important member group.

More than one round-table discussion brought to the consciousness of members the serious gap left in their information by the lack of direct Soviet representation. Indeed, some of the questions for discussion drafted months earlier almost seemed designed to draw out issues in which the U.S.S.R. is especially interested: as, for example, those relating to the effect of national economic policies on international conflict—specifically those relating to trade expansion—to the industrialization of new areas, and the quest for underlying causes and motives of such policies. Government monopolies, the effect of ‘anti-dumping’ laws, embargoes, controls over the export of capital, and other subjects of that nature were discussed in some instances with illustrations directly relating to conflicts between the Union and other Powers with interests in the Pacific. Towards the end of the economic discussions, questions came up concerning the efficacy of methods tried by different governments in adjusting their internal machinery of economic controls to the international situation; and here again the lack of first-hand evidence from the Soviet Republics distinctly limited the discussion, although a few members, such as Colonel Hugh Cooper, an American engineer with long experience in Russia, were relatively well informed. In one of the round tables on education, statements were made about Soviet propaganda in neighbouring states of the Far East which, in the absence of a Soviet spokesman, remained unchallenged though to some they seemed to be contrary to the known policies of the Soviet Union. That these difficulties due to the absence of one of the most important groups in the Institute were realized by many of the members appears also from the discussions of the International Programme Committee which, in planning for the main theme of the 1935 Conference, placed in the forefront of its considerations the widely felt need for a full presentation of the economic and social policies of the Soviet Union, with the philosophy and concrete objectives at the back of them.

The newly elected Secretary-General, at a meeting of the Pacific Council, further expressed the unanimous desire to facilitate participation of the U.S.S.R. Council of the Institute by stating:

‘It must be clear that one of the most important determinants of the place of the next conference should be this. The conference must be held in a country where the Soviet members of the Institute of Pacific Relations may freely come in accordance with the law of the land and not in violation of it. One of the first duties of the Secretary-General will be to arrange for

an early personal presentation in Moscow of the results of Banff, the consensus of opinion with reference to Soviet participation, and the studies proposed for the next conference.'

The Pacific Council expressed its accord with this view by incorporating it in the minutes.

Another gap in the full representation of the Pacific community was the absence of representatives from any of the Latin American republics fronting on the Pacific Ocean. But their case is different from that of the Soviet Union in that the latter already has established a body with full membership in the Pacific Council of the Institute, whereas it has not so far been possible to find in any of the Central and South American countries a body qualified by the Constitution of the Institute to be recognized as a National Council. However, it was recalled that at one of the previous conferences Mexico had been represented by an observer; and the International Secretariat stated that only financial considerations had made it impossible to organize a Mexican group in time for participation in the Banff Conference.

Because of the serious financial situation, the conference membership was no larger than two years previously at Shanghai, numbering a total of 133 members (compared with 132 in 1931 and 214 in 1929), with two observers from the International Labour Office and one each from the League of Nations and the International Studies Conference of the League of Nations. The admission of the Netherlands-Netherlands East Indies Council as a national unit, under the terms of the Constitution, increased the representation of such units on the Pacific Council to ten. Representatives of the French group—the Comité d'Études du Pacifique—were recognized as members in full standing, although a French National Council of the Institute is still in process of formation.

The following changes of officers took place. Jerome D. Greene resigned as Chairman of the Pacific Council and was replaced by the election of Newton D. Baker. Hu Shih, leader of the Chinese group, was elected a Vice-Chairman. Dr. Carl L. Alsberg, Director of the Food Research Institute, Stanford University, U.S.A., was elected Chairman of the International Research Committee to fill the place left vacant by the death, in November 1932, of Charles P. Howland—concerning which the Pacific Council adopted a minute expressing its sense of irreparable loss. He had brought to that office, the minute reads,

'a keen interest and extraordinary understanding of the relations of research to the requirements of public opinion and public policy. To the acuteness, thoroughness and objectivity of a well-trained mind he added sympathy, common sense, and a grasp of the realities of human relations which made his judgement sound and helpful.'

George M. Smith, of the Canadian Council, and G. M. Gathorne-Hardy, of the British Group, were elected to serve for two years as Chairman and Vice-Chairman of the International Programme Committee.

Edward C. Carter, Secretary of the American Council, was elected Secretary-General of the Institute. In accepting the appointment, Mr. Carter paid tribute to the officers of the Institute and the members of the International Secretariat, particularly the Acting General-Secretary, Charles F. Loomis, to whose comprehensive knowledge of the Pacific and unselfish devotion to the Institute, of which he had been the founder, belonged much of the credit, he said, for such achievement as had been attained. Mr. Carter stressed the following principal needs for the further development of the Institute: 'research must remain central in the Institute's programme', but there is also a need for greater activity in making the results of research widely available. The precarious financial situation of the Institute must be strengthened through the active co-operation of all the national units. The organizational work of the Institute can best be strengthened, not by enlargement of the International Secretariat, but by developing effective national secretariats. To this end a systematic international exchange of staff members might contribute an element of importance.

The Pacific Council regretfully accepted the resignation of Miss Elizabeth Green as editor of *Pacific Affairs*, recording its high appreciation of her services during her seven years' connexion with the Central Secretariat—a period of financial stress during which only an unusual ability and devotion had made it possible to maintain the high journalistic standards which Miss Green had set herself. A committee appointed by the Pacific Council at Banff to advise on its publication policy recommended that the Institute's journal be continued as a quarterly; and that the more informational services be rendered separately through a bulletin issued at more frequent intervals. This recommendation was accepted with the proviso that the Secretary-General and the Chairman of the Publications Committee have authority to revert to monthly publication if the Institute's financial situation should permit them to do so.

The principal organizational change decided upon at Banff was the rounding out of the Institute's machinery of operation by the establishment of two standing committees, each consisting of one representative of each of the National Councils, the one on Publications, the other on Educational Methods. The former, according to the recommendations of a special committee which was appointed to advise the Pacific Council on the best ways of increasing the effectiveness of its own educational functioning, is 'to determine the general policy in respect of the

publications of the Institute'; the second is 'to work with the Central Secretariat in the study of educational methods and possibilities during the next two years and to report on existing educational activities and on further possibilities in the educational field covered by the objective of the Institute'. The Pacific Council further made its own the committee's suggestion 'that each National Council be recommended to set up a Committee on Education to deal with the problems in education affecting international relations within the area under its jurisdiction', on the understanding 'that nothing in these resolutions shall be interpreted as interfering with the autonomous activities of the National Councils within the scope of the objective of the Institute or with the activities of individual members in educational work'.

Realizing how much the 1933 Conference had gained from the two years' preparation made possible by the adoption of the major conference theme in 1931, the International Programme Committee explored the possibility of rendering a similar service for the conference two years hence. After a number of sessions and meetings of sub-committees, it was decided to combine a variety of suggestions under the general heading of 'Aims and Results of Economic and Social Policies of Pacific Countries', which later was officially adopted as the theme of the 1935 Conference. While the more detailed outline adopted for translating this theme into a programme of discussion and pre-conference research is open to change, it may here be stated that the policies to be considered will not be restricted to government policies but also include those of important minorities; they will be limited, however, to those affecting the Pacific area, and are to be subjected to description, analysis of their aims and results, and evaluation of their aims and results. Emphasis in the preparatory studies is to be laid on the economic, social, and cultural aspects, both national and international, of standards of living and their determinants; industrial, commercial, and financial policy; national security and the instruments developed for ensuring it; relations between industrialized and non-industrialized regions (including domestic, foreign, and dependent areas); and public opinion and attitudes affecting and affected by these matters.

The research programme of the Institute during the past biennium has further added to the distinction, already evident in earlier stages, between the need for studies designed to implement the biennial conferences and that for long-range research devoted to the exploration of fundamental causes of international conflict in the Pacific area. A summary of this programme will be found in Appendix V. Here it may only be stated that the procedures of the Banff Conference exemplified a happy relationship in the Institute between functions of information

and of research. Again and again, problems were taken up by a round table on the basis of preliminary data made available by members of the Research Committee or, reversely, referred to the Research Committee or one of its sub-committees with suggestions and clues derived from an informal discussion. Another point especially worth noting here is the increasing realization of the need found in previous conferences to have studies originated as separate projects in some or all of the member countries co-ordinated through unified presentation and interpretation. Land utilization, communications, the status of aliens are subjects now undergoing co-ordinative studies of data for the most part previously assembled by the different national units. In the ensuing biennial period steps will be taken to complete these projects and to secure comparative data for further co-ordinative studies of two other topics: standards of living and international cultural relations (particularly processes that form international public opinion and attitudes in the Pacific countries).

The newly appointed International Publications Committee inherits a series of recommendations from the *ad hoc* committee on this subject which met at Banff, for the issue of monographs embodying the results of co-ordinated studies made in the last two years, including besides those on the Legal Status of Aliens, and Communications, also a Comparative Study of Boycotts, a comparative series of Case Studies in Commodity Control in the Pacific Area, and a statistical study of the Trade and Tariffs of the member countries of the Institute. It was further decided to complete for early publication an Economic Handbook of the Pacific Area, submitted by the Central Secretariat in tentative form as a data paper for the Banff Conference.

In view of this important programme of publications, the present volume of proceedings differs in some respects from those issued after previous conferences. Since many of the more important data papers will be published in other forms, it does not attempt to give a balanced survey of the findings of recent research or even of the round-table discussions based on that research. Moreover, as some of the national economic policies which most engaged the attention of the round tables are scheduled for fuller discussion in 1935, against a larger background of objective information, the opinions expressed in regard to them at Banff will here be briefly sketched rather than reproduced in their entirety. Likewise, to ensure some unity for the contents of this volume, many interesting sidelights on national developments in the last two years which do not bear upon the major subject of the conference agenda will be omitted or only briefly indicated in the introductory section. It is hoped that by some such selective process each succeeding

volume in the series of 'Problems of the Pacific' will in the main cover a distinctive subject field and avoid repetition of what has gone before—though in the actual conduct of the biennial conferences a certain amount of repetition and restatement is unavoidable. Readers who desire a briefer and more formal summary of the Banff Conference are referred to the October 1933 number of *Pacific Affairs*.

The editors wish to record their appreciation for the excellent facilities given them for the collection of their material by the Conference Secretariat, and for the devoted and able assistance of the large corps of round-table recorders listed on p. 458. They also wish to thank those members who have helped by correcting records and providing additional data.

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INTRODUCTION

THE PACIFIC SCENE, 1931-1933

THE DISCUSSIONS in the Institute of Pacific Relations Conferences have taken place at a time of political and economic conflict which would inevitably make itself felt even in the most abstract deliberations on international relations. On the less academic discussions of the Institute meetings the conflicting forces exerted a powerful, sometimes overwhelming, influence. Some members have thus felt on occasion that the conferences were too preoccupied with outstanding events of the moment, too much concerned with the recurrent shocks in the surface crust of international society, and too little interested in the slow, ponderous 'geologic' tendencies underlying them.

The 1931 Conference, held as it was in the midst of a veritable earthquake which disrupted the whole political structure of the Far East and shook the foundations of the world peace machinery, could hardly have avoided a preoccupation with immediate events even if it had desired to do so. However important the study of geology, there are matters of more pressing concern when an upheaval or an eruption is actually in progress. After the conference, however, when the International Programme Committee met to determine the subject of the 1933 meeting, there were many who felt strongly (and had, indeed, so insisted in the 'critique' of round tables at the end of the conference) that the study of political seismology should take a more commanding place in future. They believed (to quote a preliminary pamphlet¹) 'that the time had come for the Institute to discuss problems which were fundamental and international in scope and common to all the main Pacific countries, rather than to concentrate, as in large measure it had done during the third and fourth conferences, on the problems of one country or one region'. In effect, this proposal meant not so much that the Institute should abandon its former habits of discussing the outstanding political issues of the day, but rather that it set these immediate problems in a clearer relation to the slow-moving and often invisible social and economic forces from which they originate. In this way, the Programme Committee believed that the 1933 Conference would be able to show that any given burning political issue, whether it was of the status of Shanghai or of Manchuria, was, in fact, only one (admittedly an important one) of a number of comparable problems to be found elsewhere in the Pacific area. It was hoped, too, that a more searching method of

¹ *Fifth Biennial Conference of the Institute of Pacific Relations*, published by the Secretariat, Honolulu, February 1932.

comparison and analysis would make it possible for countries other than China and Japan to contribute to the round-table discussions much more of their experience than had been possible in past conferences.

The records of the Banff Conference show that to a large extent this hope was justified; the round-table discussions centred more than ever on long-term tendencies in international affairs. Obviously, however, they could not be exclusively so concerned, for in the two years following the 1931 Conference almost all the Pacific countries had suffered from further shocks which had wrought world-wide havoc in business, trade, and livelihood. The Banff Conference met only a few months after the United States banking crisis and but a few weeks after the inconclusive World Monetary and Economic Conference held at London. Both events inevitably cast a shadow over the proceedings at Banff and coloured the discussions. Other recent events, even though they were described in smaller newspaper headlines, also influenced the discussions. The following paragraphs are, therefore, designed to give some kind of perspective to the chapters which describe the round-table discussions, and also to provide a link with the proceedings of the previous conferences. They are not intended as a full interpretation of international relations in the Pacific, but should be regarded rather as a kind of 'news reel' survey. Like a news reel, they have to do more with crises, disasters, and abnormalities than with the commonplaces of international affairs.

ECONOMIC RELATIONS

If foreign trade and overseas investments are, in any sense, a measure of prosperity and peaceful international intercourse, the two-year period beginning in September 1931, just before the Shanghai Conference, has marked the lowest ebb in Pacific foreign relations. The shrinkage of world trade was already a serious problem in 1931; but few observers then suspected that it would continue to such unbelievable levels as it reached by the first quarter of 1933, when the total gold value was only a third of what it had been in 1929. In that decline all the principal Pacific countries shared and, as may be seen from the accompanying table (see p. 3), were often more seriously affected than countries in Europe because of the predominant part played in their export trade by raw materials and foodstuffs, where the collapse in prices was greatest. Outside of the Soviet Union, whose strictly Pacific trade was very small, there was only one country where signs of a definite spurt in business activity had begun to appear by the end of 1932, namely, Japan, where artificial stimuli had arisen from a violent exchange depreciation and from an internal fiscal inflation necessitated

FOREIGN TRADE OF THE PACIFIC AREA

(Special Trade, Merchandise only, in Million U.S. Gold Dollars)

	1929	1930	1931	1932	1933
Australia					
Imports	706	460	197	187	175
Exports	592	418	315	268	290
New Zealand					
Imports	233	204	110	78	67
Exports	259	204	141	109	108
Canada					
Imports	1,299	1,008	608	399	289
Exports	1,225	905	623	487	378
U.S.A.					
Imports	4,339	3,114	2,088	1,330	1,121
Exports	5,157	3,781	2,378	1,577	1,282
China					
Imports	810	603	487	345	300
Exports	650	412	309	161	138
Japan					
Imports	1,000	744	589	395	380
Exports	969	707	547	388	366
Korea					
Imports	195	181	132	88	13 ^a
Exports	159	132	128	80	10 ^a
Formosa					
Imports	94	83	71	45	8 ^a
Exports	125	119	108	67	3 ^a
Philippines					
Imports	146	122	98	79	52 ^b
Exports	163	132	103	95	74 ^b
Dutch E. Indies					
Imports	446	357	238	159	116 ^c
Exports	581	466	301	232	180 ^c
British Malaya					
Imports	498	400	242	154	136
Exports	521	371	214	131	144
Indo-China					
Imports	101	71	51	38	34
Exports	102	72	44	40	40
Siam					
Imports	86	65	40	29	26 ^d
Exports	94	69	49	45	36 ^d
U.S.S.R.					
Imports	453	545	569	360	164 ^c
Exports	482	533	417	290	238 ^c
Total Pacific					
Imports	10,406	7,957	5,520	3,686	..
Exports	11,079	8,321	5,677	3,950	..
World					
Imports	35,606	29,083	20,847	13,885	11,940 ^d
Exports	33,035	26,492	18,922	12,726	11,116 ^d

^a Excluding trade with Japan.^b Ten months only.^c Eleven months only.^d Provisional estimate.

by the expensive military operations against China. The decline in trade was not merely a passive experience. Trade was in many cases deliberately strangled, and the Pacific area, though it escaped some of the more drastic direct restrictions on trade which became so common in western Europe, was not immune from the general epidemic of tariff increases.

The existing tariffs would, without any change, have become increasingly burdensome in many cases simply by the fall in prices (especially where the proportion of duties on a specific basis was high). In several cases, moreover, their effectiveness in reducing trade was intensified by an addition of numerous administrative restrictions, adding to the uncertainty and the difficulty of making long-term commitments. Finally, as if these were not enough to throttle international commerce, exchange depreciations in Japan, New Zealand, Canada, ending with the abandonment of the gold standard by the United States, injected a new element of hazard into the business of foreign trade, still further disrupting established channels of business and providing fuel for public resentment and its expression in retaliatory tariff action against alleged dumping.

Unemployment continued to increase both in industrial countries and in the agricultural regions where it was less susceptible to statistical measurement. Along with the growth of unemployment came further increase in administrative restrictions on international migration, imposed in the hope of reserving existing opportunities of employment for domestic labour. In the United States, for the first time in many years, departures exceeded the number of immigrant admittances. Chinese immigrant labourers attracted into British Malaya by the development of the tin and rubber industries were forced to return in thousands to their home villages in South China, while at the same time there was a backward current of Javanese peasants returning to their home villages from the rubber and sugar plantations of the Dutch East Indies. The rural discontent and distress brought about in the country-side of Japan by low rice prices and the slump on the American silk market were paralleled on the other side of the Pacific by recurrent agitations, often attended with violence, by farmers of the western agricultural regions of the United States labouring under a similar handicap of a further decline of chronically low prices.

Apart from the conditions peculiar to the Pacific countries, certain events outside the Pacific area tended to intensify the effects of the depression within it. Thus, the wheat situation of Canada and the United States was seriously affected by the continued growth of agricultural production in European countries and by the consequent

restriction of their imports. The Indian Government, in an attempt to foster its own cotton industry, imposed an almost prohibitive tariff on imported cotton goods, the effects of which were of course felt chiefly by Japanese traders, whose market in India had been growing rapidly. Resentment thus created developed into a situation of outright economic warfare which culminated in the decision of the Japanese cotton importers to reduce their purchases of Indian cotton.

The economic picture of the Pacific area was gloomy enough, but there were lighter spots here and there; and particularly after the first quarter of 1933 there were signs of a temporary halt in the downward trend and, indeed, some definite signs of recovery. In the first place, there was the undoubted improvement in Japanese production and a remarkable growth in Japan's export trade. Doubts were expressed in some quarters as to whether this artificial boom could last, but in the meantime there could be no doubt about the real improvements which it had brought about in production and employment in Japan. Next, there were clear evidences of recovery in Australia, where the Government had successfully carried through a drastic campaign of retrenchment and financial readjustment. With much of its dead weight of debt thus cleared away, the country was in the position to reap an immediate advantage from the improvement in wool prices. It also benefited from the increased business activity in Japan and was able to expand its wool and wheat exports to that country.

In China, improvements of a different and less spectacular character had been carried out; and, as Chinese members of the Banff Conference were able to point out, there had been a number of appreciable accomplishments in the field of economic reconstruction and the organization of public health,¹ sometimes with foreign technical assistance and sometimes by the unaided efforts of the Chinese authorities. In the international sphere, the British Imperial Economic Conference, held at Ottawa, had achieved a measure of international agreement on trade (a rare enough event in itself), even though, as many critics pointed out, the agreement had been achieved at the cost of some restriction and diversion of world trade outside the British Commonwealth. Finally, in the United States, it appeared, in spite of the unsettled condition of affairs at the time of the Banff Conference, that the Roosevelt Administration, in its prompt dealing with the bank crisis, had conjured up new confidence in the public mind and had in some lines of industry brought about an appreciable measure of recovery, though here again some observers could point to certain policies in the Roosevelt programme which for the time being seemed to make for uncertainty and further

¹ See below, Chapter VIII, pp. 192-4.

unsettlement in the international economic sphere if not in the United States itself.

POLITICAL RELATIONS

A news reel of the years 1932 and 1933 in the Pacific would not be confined to pictures of economic events, for there were equally important moves on the political chess-board of the area. Here the outstanding fact was obviously the apparently successful conclusion of the Japanese military venture in Manchuria. The whole of the Three Eastern Provinces had been brought under the control of Japanese troops, and the control had, indeed, been extended into the province of Jehol. With the truce signed at Tangku between the Japanese commanders and those of North China, it seemed that for the time being at any rate Japan had successfully established herself in a commanding position on the Asiatic continent. Her real position was not disguised by the subterfuge of creating the puppet state of Manchukuo, which has remained unrecognized by all governments except the Japanese. The Japanese campaign against China had important reactions in many other countries. Perhaps most important of all, it put the peace machinery of the League of Nations under the strain of its first really great test and revealed only too tragically that the machinery was inadequate, or at least that it was inadequate in a world so prostrated by an economic crisis. In the Pacific area it changed the whole pattern of diplomatic relations. There was a profound revulsion of public feeling in China itself, and considerable evidence of distrust in the possibilities of assistance from international co-operation, to which were allied some indications of a new spirit of self-determination, in China itself. Increased friction between Japan and the Soviet Union was manifest in several ways—first, in the restoration of diplomatic relations between China and the latter country ; second, in the failure to negotiate the non-aggression pact between the Soviet Union and Japan ; and third, in the repeated irritations arising out of frontier incidents in Manchuria and disputes over fisheries in the northern Pacific.

The Manchurian dispute was watched with anxiety on the other side of the Pacific as well, for Japan's action was generally regarded as a violation of the Washington Nine-Power Treaty, to which the United States was an important party. Following the exchange of diplomatic correspondence between the Japanese and the American Governments during the southward advance of the Japanese troops on Chinchow and the Great Wall, came the announcement from Washington of the Stimson non-recognition policy by which the United States made it clear that it would not recognize any political change brought about

by the violation of the Kellogg-Briand Pact. That, together with the participation of the American Government in the League of Nations Commission of Inquiry, was considered by the outside world as an event of the highest significance in the development of world peace machinery, since it signalized the determination of the United States to implement the provisions of the Kellogg-Briand Pact. It was regarded as significant also that the new Roosevelt Administration made it clear that it proposed to adhere to the non-recognition doctrine and to continue co-operation with the League of Nations.

The United States was further involved in Far Eastern political developments by reason of its own relations with the Philippines.

‘On December 29, 1932, the American Congress enacted a law granting independence to the Philippine Islands. Although President Hoover disapproved it, his action was not sustained in Congress, and the Act was passed again over his veto. . . . As far as tariff policy was concerned, the action of Congress marked the triumph, after five years of almost continuous agitation, of organized American farm interests, particularly dairy farmers and sugar-beet growers. When the Acts of 1922 and 1930 were under discussion, the demands for the restriction of Philippine imports were rejected. American public opinion, it appeared, would not permit tariff legislation against Philippine sugar and coconut-oil, since the Islands were under American rule. But once the Islands were separated politically from the United States, the American import duties would apply to Philippine trade as to that of any foreign country. Recognizing these facts, the farm leaders urged independence for the Filipinos. In this programme they had the support of the American interests in the Cuban sugar industry and of others who had no business interest in the matter but who were anti-imperialist by conviction.

‘In the Act of 1933, Congress recognized that to cut off political relations with the Philippines, applying immediately the American tariff against their goods, would be a grave injustice; for as a result of the system of Colonial preference established in 1909, the Islands have become to a large degree economically dependent on Continental United States. Provision therefore was made for a ten-year transitional period during which Philippine exports to the United States were to be subjected to restrictions. Only at the end of the period were they to be subjected to the full rights of the American tariff. Actual independence would not be finally granted until the Act had been accepted by the Philippine Legislature and until, subsequently, a Constitution had been accepted by a plebiscite.’¹

Quite apart from the economic difficulties into which the proposed scheme of independence would have plunged the Philippine Islands, the activities of the Japanese army in Manchuria and of the navy at

¹ Percy W. Bidwell, *Tariff Policy of the United States*, a report to the Second International Studies Conference on the State and Economic Life. Council on Foreign Relations, New York, 1933, p. 97.

Shanghai had aroused considerable fear among the Filipino leaders as to the political expediency of the newly offered freedom. That fear, combined with the feeling of resentment at the manifest injustices in the Act—Manuel Quezon denounces it as an insincere joke—was strong enough to ensure the defeat in the Philippine Legislature of the Bill accepting the Act. Without such acceptance and without the plebiscite approving a Constitution, which was to have followed, the original Act has since become inoperative, and the political status of the Islands thus remains unchanged.

The Filipino political leaders announced their intention of beginning a new campaign at Washington in favour of something more nearly resembling the status of the British Dominions rather than absolute independence.

Subject to certain qualifications, the political question of the Philippines may not unfairly be compared with that of Australia and New Zealand. Both these dominions, though politically autonomous, must depend for their external defence on the naval forces of the mother country. They, like the Philippines, felt not a little alarmed at the military expansion of Japan. Their feelings, however, were confused by contradictory economic interests, like those which appeared in the arguments for and against Philippine independence. Australia, for example, has been building up an exceedingly valuable market in Japan for her wool and wheat, and hopes to expand it further and, perhaps, also to develop a trade in dairy products. Public opinion is thus in doubt as to whether a Japan strengthened and encouraged by her continental conquest will be a greater menace to the political safety of the southern British Dominions, or whether her preoccupation with the problems of north-eastern Asia will distract attention from countries below the Equator. Similarly, it is not yet clear whether Manchuria, under Japanese guidance, will provide an additional market for Australian products or whether, with the encouragement of wheat cultivation and sheep farming, it will not come to be a new competitor. The records of the British Commonwealth Relations Conference held at Toronto on September 11-21, 1933, show that the problem is one of real and permanent interest in both Dominions.

SOME FACTORS PECULIAR TO THE PACIFIC

A recital of the economic and political ills which beset the countries of the Pacific area leaves itself open to the comment, which was in fact made by some members of the Banff Conference when the details of the discussion programme were being drafted, that such problems as falling prices, trade restrictions, political insecurity, and the like, are essentially world

problems and not peculiar to the Pacific area. It seems necessary, therefore, to examine the truth of this argument and, at the same time, to look at one or two factors which are of unusual importance in this part of the world. It is true, of course, that the decline in foreign trade is by no means confined to the Pacific area; but at the same time it should be remembered that in many Pacific countries the severity of the decline, both in volume of trade and in the prices obtained for export products, has been peculiarly severe. Such exports as Japanese silks, Malayan and Dutch East Indies rubber, Java sugar, Australian wool, Malayan tin, and American and Canadian wheat have suffered from the severest decline in prices in the whole series of international commodities.¹ Such changes in prices are particularly significant for the Pacific area, since so many of the countries depend for a great part of their economic welfare on the proceeds which they can obtain from one or two export commodities. For such countries as the Netherlands East Indies, Australia, New Zealand, and, to a considerable extent, Canada and Japan, the drop in the value of their export products means not only hardship to the producers of these commodities, but acute difficulty for the whole country in purchasing the necessary imports of raw materials or manufactured goods and in meeting its overseas debt obligations. An excellent illustration of the reduced bargaining power of these countries as the result of the fall in export prices may be found in a study of the charts published by the League of Nations, showing the changes in the terms of trade in certain countries.²

Leaving aside these facts, however, one is confronted with a series of chronic abnormalities in the Pacific area which by themselves would tend to give a peculiar significance to the economic and political difficulties of the region. First of all, there are the extreme differences in economic organization and in cultural backgrounds. It is not merely that the Pacific area contains some of the emptiest and at the same time some of the most densely peopled parts of the earth's surface. Equally important are the differences in the forms of productive organization, ranging from the primitive agricultural civilization of China through the typical colonial economy of Malaya and the Dutch East Indies up to full-fledged industrial nations, such as the United States, Japan, and Canada. These differences manifest themselves in many different ways. But for the Banff Conference probably the most significant was the variation in standards and planes of living which attracted a great deal of attention in the round-table discussions.³

¹ *World Economic Survey, 1932-1933*, League of Nations, Geneva, 1933, p. 51.

² *Review of World Trade, 1932*, League of Nations, Geneva, 1933, p. 10.

³ See below, Chapter IV, p. 84 *et seq.*

These differences in organization are in part a matter of historical accident and of cultural backgrounds; but to a large extent they are also the product of marked inequalities in the resources of raw materials and foodstuffs with which the various Pacific countries have been endowed. In the field of mineral resources, for example, it seems to be pretty generally agreed that the Pacific area is too poorly supplied to permit of any large-scale development of heavy industry on a scale commensurate with that of western Europe and eastern United States. Equally important is the fact that the total endowment of mineral wealth is not only inadequate but very unequally distributed. Japan, which is a rapidly growing industrial nation, has a special need for supplies of this kind and is faced with a serious shortage of iron, steel, oil, and a number of important industrial minerals under her domestic control, while, on the other hand, the greater part of the supplies of tin and rubber, not only of the Pacific area but for the whole world, are, by historical accident, largely under the control of Great Britain and the Netherlands.

It has become almost a truism to speak of the divergences in population density around the Pacific Base. The gross figures showing the number of persons per square mile of territory are, of course, very misleading for any purpose whatever, but even when corrections have been made to allow for the amount of unproductive land and for differences in agricultural technique, the contrasts both in population density and in utilization of available land remain very striking. What matters, however, is not so much that the present differences are great as that the trends of future growth in population are so divergent. It seems clear that Japan and the Soviet Union are at present in the actively expanding phase of the population cycle, a phase through which the United States and most countries of western Europe have passed a decade or so ago. Australia, New Zealand, and Canada are also in an expanding phase, if one accepts only the evidence of natural increase and immigration statistics. But in these countries, though the rate of increase is high, the absolute numbers are still very small. The characteristic feature of the United States population is the process of stabilization which is going on. The natural rate of increase has been steadily slowing up, so that the population should reach a stationary phase within about a decade, and should actually begin to decline somewhat twenty or thirty years hence. Although the statistical evidence is not sufficient to allow of accurate measurement, there seems to be reason to believe that the population of China is increasing slowly, even in spite of the very high death-rate and the losses consequent on famines and other natural disasters. But China, like the Netherlands East Indies, and

British Malaya, where a high rate of increase is associated with an already high density of population, has not reached that stage of economic organization where an increase of population becomes linked to an aggressive expansion in trade and territorial aggrandizement.

Along with all these striking differences in natural wealth, population and productive organization go a series of political differences, some of them amounting, in fact, to political anomalies and all of them adding to the general instability of international relations in the Pacific area. Some of these anomalies have been the outcome of the Sino-Japanese dispute. Others may in a sense be regarded as contributing causes to it. One of the legacies of the dispute is obviously the existence of a vast semi-colonial territory as large as France and Germany combined, which is effectively under the control of the Japanese authorities, but nominally under the control of a government unrecognized by the rest of the world. The creation of puppet states and buffer states has been a well-recognized tactic of nineteenth-century imperialism. But there has never been a puppet of such gigantic dimensions and of such potential wealth and economic importance as the newly formed state in Manchuria.

Closely associated with the Sino-Japanese dispute, though it has a much longer history, is the institution of boycotts, which has come to be used almost as a recognized instrument of national policy in China. Its use in the past has done much to embitter relations between China and foreign Powers, and, even though the evidence seems to suggest that its economic effectiveness is seldom very long-lived, it is not likely to be abandoned by the Chinese people as the most effective and damaging weapon of protest available to a relatively weak nation. The boycott, like the other political anomaly in China, namely, the existence of extra-territoriality, is closely linked up with the full exercise of national sovereignty and the ability of the central Government to maintain adequate control over its whole territory. The difficulty in the way of maintaining this control in the face of persistent internal military strife has been the substance of many arguments in the relations between China and the outside world. Their importance is not likely to diminish with the cessation of the Manchurian hostilities. The allegation that China is not a unified sovereign state must, of course, be considered along with other statements, apparently well founded, to the effect that Japan herself, by reason of certain constitutional peculiarities, is much more subject to the domination of her military and naval leaders acting independently of the parliamentary machine than is usually the case in Western countries. Going still farther, one may, perhaps, find a parallel problem, which has now become of less immediate importance, in the

relations between the Soviet Government, acting through its normal channels of foreign relations, and the international activities of the Communist International, with head-quarters at Moscow and having close internal connexions with the leaders of the Soviet Government. The existence of all these political and diplomatic peculiarities means that an important part of the Pacific area is liable to disputes over problems which could hardly arise between nations of the Western world and which, if they did arise, could fairly easily be settled by the existing world diplomatic and juridical machinery. The Manchurian dispute only provided too convincing proofs of the fact that this machinery was not able to cope with the problems of a region in which the accepted Western concepts of state sovereignty and national rights had slightly different connotations. The danger occasioned by this breakdown and by this failure to fit Western machinery successfully to the special circumstances in the Far East has not been lessened by Japan's notice of withdrawal from the League of Nations, thus leaving the Pacific area with three of its greatest nations, the United States, the Soviet Union, and Japan, outside the scope of the Covenant. The resulting hiatus in the world's peace machinery may be fraught with grave dangers—a fact which has been well recognized by the Japanese Council of the Institute, two of whose members prepared for the Banff Conference a draft treaty attempting to take care of the difficulty thus created.¹

The suggested treaty, as explained by one of its authors to a special round table of specialists on international law, develops logically from the following considerations:

1. Existing peace machinery (especially in the Pacific) does not provide for constructive examination and revision of international conditions likely to disturb peace. A prerequisite of international justice is that there should be some means for the redress or alleviation of economic inequalities among different peoples of the world.
2. There is a lack of order and unity within certain nations. There does not exist in the Pacific area an international society of nations at similar stages of development. For such a society a prerequisite is that individual states should fulfil the conditions of civilized society and adhere to their international obligations. This lack makes necessary a special regional organization.
3. There are special problems arising from vigorous and uncontrolled

¹ Y. Takaki and K. Yokota, *Some Considerations on the Future Reconstruction of Peace Machinery in the Pacific*, Japanese Council, 1933. An outline of the proposed pact is printed below, in Document IX, p. 441 *et seq.*

nationalism in the world. There is thus an urgent need for a revived internationalism and a re-establishment of some basis for international co-operation.

The Japanese members were at some pains to convince their colleagues that their proposal was only in the most provisional form. Their great concern was not to learn whether the articles as drafted were acceptable in all details, but to discover whether the general idea as to the necessity of special regional machinery was sound. Even on these general grounds, however, there was criticism from some members. In the first place, though this was of minor significance, the proposed pact ought to include as Contracting Parties, the Netherlands, Canada, Australia, and New Zealand. Secondly, it did not make clear what the position of the unrecognized Manchukuo would be in such a regional agreement. It was admitted that a regional pact settling and guaranteeing the status of Manchuria (a kind of Pacific Locarno within the framework of the League) might be desirable, but for this purpose it was unnecessary to make the pact include all Pacific countries. The third and greatest objection came from those who argued that peace is a world problem, and that any proposal like this which tended to decentralize the peace machinery of the world and further to prejudice the authority of the League of Nations, was to be discouraged. Since the War, regional machinery had fallen into disrepute. The Pan-American Union, for instance, had stood aside during the South American dispute in favour of the League. Nevertheless, it was recognized by several members that a plan for regular conferences of Pacific countries to deal with matters relating to access to raw materials and markets might prove both possible and fruitful. For, as Japanese members have pointed out (not only at Banff but also at former Institute Conferences), the great need is not for treaties guaranteeing a fixed condition in political or economic relations, but for new machinery permitting a periodic review and adjustment of existing conditions to national economic needs and opportunities. As long as there is a class of 'have nots' in the community of nations, the mere maintenance of the *status quo* will never be a workable principle for diplomatic machinery.

CHAPTER I

ECONOMIC CONFLICT AND CONTROL

THE WIDER BACKGROUND¹

THE POLITICAL and economic anomalies mentioned above in the Introduction are not simply by-products of the present world depression, however much it may have brought them into sharper relief. They are of long standing—the result of complex historical and geographical factors; and the conflicts that spring from them may be described most simply as being in the last analysis the results of a fundamental maladjustment between political boundaries and national economic needs or economic opportunities. One may compare such maladjustments with a series of unequal pressures acting on the various countries. The first of these, as has been shown, is the pressure which arises from their uneven endowments of natural wealth, whether it takes the form of deficiencies in food-supply or in arable land or in industrial raw materials. Japan, for example, has a natural shortage of both coal and iron for any long-term programme of industrialization; Canada is dependent on other countries for supplies of cotton and raw silk, the United States for rubber, tin, and coffee. Second, there are unequal pressures of population, partly the result of the natural inequalities mentioned above and partly the result of deliberate economic development—or the lack of it. Next are the inequalities of standards of living, implying not merely variations in costs of living in various countries but also more fundamental differences in cultural standards, with the consequent differences in the ideas of what constitutes material and social welfare and what a ‘high’ standard really means. Fourth, there is the uneven distribution of political strength in the Pacific area. Some countries are dependent territories, while at the other extreme there are what we are pleased to call the Great Powers. From these variations in political strength, which some people would prefer to describe as differences in naval and military strength, there arise differences in economic bargaining power. Finally, there are some inequalities which may be described by the term inequalities of growth. By that is meant that either by accident or by plan certain countries have secured an advantage through being first in the field of trade or industrial development; and, conversely, other countries now attempting a programme of economic development find themselves thwarted by the superior competitive power (greater capital resources or higher level of

¹ From an address by W. L. Holland, International Research Secretary.

technical education) of their older rivals and, still more serious, often find themselves debarred from certain world markets because these have been carefully fenced off as the preserves of the first-comers in the field.

For a long time, these inequalities of pressure were able to exist side by side simply for the reason that effective methods of communication between the different parts of the Pacific area had not been developed. It was as if one had a number of compartments of different gases at different pressures and with different chemical properties, side by side but isolated from one another. But now, with the development of physical methods of transportation, like railways, roads, and steamships, and also with the less tangible but more potent means of intellectual communication, such as cables and radio, the effect is as if the various compartments had been connected by pipes. Some of the pipes are large and permit of rapid equalization of pressures ; others are small or else contain obstructions which hinder the readjustments towards some kind of stability. Moreover, after the first stage, there has been a tendency to block the pipes with various artificial devices, such as tariffs, immigration restrictions, or loan restrictions. But broadly, it is true to say that there has been a tendency towards equalization of the different pressures ; and inasmuch as the gases were described as having different chemical properties, there is also a tendency for them to react upon one another, accompanied usually by heat and sometimes by explosions.

It so happens that the process of linking together these different parts of the Pacific area was not an isolated phenomenon. On the contrary, it was part of an extraordinary overflowing of political, economic, and cultural forces from western Europe and North America. This is essentially the process which is called expansionism. With a few qualifications, one might say it is approximately the same phenomenon which the Marxian theorist would call imperialism. It is a process which, perhaps, came to its climax in the last decade of the nineteenth century, when its most spectacular manifestation was the race among the Great Powers of western Europe to stake out huge territories in the undeveloped parts of the world or to secure great financial interests in relatively weak countries like China, Persia, and Latin America. One aspect of it was the grab for Africa, another was the scramble on the part of England, France, Germany, and Russia to secure concessions in China, another was the successful attempt made by Japan to become a colonial Power by the acquisition of Formosa and Korea. In some cases it resulted in open warfare, as between Spain and the United States or Russia and Japan ; in other cases the process of acquisition was carried

out with little resistance. In many cases the prizes to be gained were large, and there is no doubt that a great deal of the imperialist thrust had its origin in a desire to secure valuable raw materials and, especially, tropical colonial products; but sometimes subsequent history has made it seem doubtful whether the competition was really worth the price. Here and there one can find examples of imperialist rivalries that now seem almost ludicrous. One may think, for example, of the spectacle in the 'eighties, of the harbour at Apia in Samoa, filled with the warships of three great nations trying to curry favour with the local chiefs¹ and of similar international intrigues and jealousies of still less important South Sea islands.

While it is true that there were powerful economic forces behind this great outward thrust of the Western Powers, it is, nevertheless, important to remember that it had not only economic but also political and cultural manifestations. Indeed, it is probably because of this extraordinary confusion of motives in which the hope of profit was tangled up with the idea of bringing political stability to countries like the Philippines or China, and with the more humanitarian desire to bring the alleged benefits of European civilization and Christianity into the lives of people whom Westerners were wont to call backward or benighted, that the expansionist movement merits most attention. Nor is the alliance between the imperialist and the Almighty solely a nineteenth-century phenomenon. If the world no longer has a President McKinley to assume control of the Philippines at the behest of the 'Ruler of Nations', in order to uplift and Christianize them, it at least has a band of men in Tokyo bent on working out Japan's 'manifest destiny' and engaged on the *mission civilisatrice* of enforcing law and order on the inhabitants of Manchuria.

Expansionism was thus not merely an overflow of economic forces or a desire to seize new raw materials and stake out new markets; it was also an overflow of political concepts and of spiritual values. From another point of view it is perhaps convenient to conceive of the whole process in terms of migrations. Sometimes the migration was an actual movement of people in an attempt to relieve the population pressure created by the Industrial Revolution in the Western countries. And, in fact, it was on the grounds of providing such outlets that certain forms of colonial expansion were advocated. Elsewhere it took the form of an outflow of productive resources in the shape of capital and, along

¹ See Charles P. Howland, *Survey of American Foreign Relations, 1930*, Yale University Press, p. 307. 'On March 16, 1889, apparently only the breaking of a hurricane over the harbour of Apia, where three American, one British, and three German warships were lying, stripped for action, prevented a naval battle.'

with the capital, of many of the ideas, technical devices, and forms of social organization that had grown up with the progress of industrialization in the West. Almost everywhere it took the form of foreign trade. This is but another name for the migration of commodities and services which, after a certain stage of growth in the home countries, were produced in ever-increasing quantities, demanding new external outlets for their disposal and, conversely, when once those outlets had been found, calling for fresh sources of raw materials overseas in order to supply the newly found markets.

Along with all of these went a migration of ideas, some of which took root in the economically undeveloped countries and have since formed the basis for the modernization of those countries. Some were ideas of democratic equality which have taken root and produced strange fruits in their new soil. Others were ideas of social welfare and individual liberty, which came into sharp conflict with family and tribal loyalties and are now working profound changes in the older traditional social codes of many Pacific countries. The bearers of these intellectual germs were not only missionaries, teachers, and foreign-educated students, but also traders and officials.

The result of all this is that to-day economic or political or cultural penetration has affected almost every part of the Pacific. There is hardly a region that does not have its foreign population, its imported foreign capital (or conversely, its investments overseas), its relation of political dependence to some foreign Power (or conversely, its responsibilities towards some colonial or mandated territory). Moreover, hardly any region has gone through these processes without some type of conflict. The conflict may not have become overt and shown itself in political crises, though there are many cases in which it has done so. It may have been manifested in a psychological state of tension in which purely accidental or extraneous events, such as the shooting of a soldier or the severe punishment of a native leader, suddenly become magnified into acute international issues. Outwardly, it may show itself in a wave of popular feeling as if some greater matter of national prestige were at stake, while inwardly and in reality it may simply be a kind of emotional outburst against an intolerable accumulation of economic or social pressures. There can be few people who have studied the background of the recent revolution in Germany or the domestic conditions in rural Japan¹ that lay behind the Manchurian fighting who will not grant the tremendous importance of these internal and sometimes unobserved psychological factors.

¹ See *Behind the Far Eastern Conflict*, American Council, Institute of Pacific Relations, 1933, pp. 14-20.

CAUSES OF CONFLICT

Whatever form the conflict takes, its underlying causes may be far removed from the immediate point of dispute. It is partly for this reason that the Banff Conference did not simply direct its attention to two or three outstanding international disputes in the Pacific area. Its experience in past conferences had shown that many of these crises have their roots deep down in situations not perceptible in the immediate controversy—situations which often are not international at all but purely domestic in scope. In such cases—and the discussions of the round tables revealed many—it is obviously futile to confine discussions or proposals for remedy solely to those aspects which are international in scope; little could be achieved if members were to insist on shutting out of the discussion all questions which were supposed to be of national concern only, with the familiar excuse that to allow them to become the subject of international negotiation would be an infringement of national sovereignty.

Because of this belief that a proper understanding of many forms of international conflict calls for a thorough examination of various local and national pressures behind it, the Institute asked the National Councils to devote a good part of their preliminary studies to analysing the various pressures which organized sectional interests bring to bear on the economic and political processes in their respective countries. It also asked for descriptions of the ways in which these group interests, whether represented by Chambers of Commerce, employers' associations, trade unions, or producers' lobbies, have organized themselves for their own profit or have been compelled to organize themselves for the benefit of some concept of public welfare.

These remarks may help some readers to understand why an international gathering of this character should concern itself with such domestic and purely national affairs as rice control in Japan, co-operation in the Hawaiian sugar industry, or the working of the National Recovery Act in the United States. Another reason is that many of the attempts at control within a nation reveal in miniature precisely the same types of obstacles that must be overcome if attempts at international control are to succeed.

'Any attempt at control of international conflict must be based on some form of domestic co-operation. The Pacific world is organized in nations. The attitudes of different countries towards national control of economic activity vary widely. It was generally agreed, however, that some form of co-operation between competing units within a given region is essential if that region is in turn to co-operate with other regions. Sir Arthur Salter has stated this proposition clearly. "After many years of international negotia-

tions on commercial policies, I came to the deliberate conclusion that the greatest and most fundamental difficulty was not an international one at all, it was the impotence of national governments. Just so far as one could penetrate the real minds and thoughts of the delegates, one saw that what was determining their attitude was not a conception of national policy but a calculation of political pressures. If the national representatives had been masters in their own houses a settlement might have been possible, but on the prevailing basis nothing could be done."¹

'The conference found ample evidence in the history of international economic relations to support this point. The attempt by Great Britain to restrict the export of crude rubber under the Stevenson Act met one of its most formidable obstacles in the inability of the Netherlands Government to control the production by native growers in the East Indies. Stabilization of world copper prices, conversely, was made possible when American exporters were enabled legally to co-operate under the Webb-Pomerene Act.'²

THE MEANING OF ECONOMIC CONFLICT

The word 'conflict' is open to numerous interpretations, the discussions of the Banff Conference showed. To some it was no more than a rather misleading description of relatively keen business competition characteristic of most capitalist enterprise. Others reserved the word for disputes attended by actual violence involving (at least in the international sphere) the participation of governments, such as armed reprisals or aggressive boycotts. Others again preferred a more inclusive interpretation in which the word covers all types of social friction or maladjustment. One round table, for example, defined the word for the purpose of a particular discussion as meaning international competition at an advanced stage but short of actual warfare. Another took the wider view that 'conflict arises from those types of economic conduct in any one country which by their methods or their results are likely to disturb relations with other countries'. The problem of adequate definition is not as academic as it might seem. The dividing line between purely political and purely economic disputes has become increasingly obscured in recent years. The Kellogg-Briand Pact, for example, appears to use the word in a wide sense, since it provides that 'the settlement or solution of all disputes or conflicts, of whatever nature or whatever origin they may be, which may arise among them shall never be sought except by pacific means'. At one round table an American student of international law and peace machinery submitted the following points for consideration.

'Where controversies of any kind are taken up by huge organizations, they become dangerous. Thus conflicts between great organizations of capital and

¹ 'The Future of Economic Nationalism', *Foreign Affairs*, October 1932, p. 15.

² E. C. Carter, *Introduction to the American Council Studies in Conflict and Control*, p. 5.

labour or conflicts between states tend to be hazardous for larger social interests. In such cases, the individuals concerned forget their economic interests and identify their welfare with the success of the large organization.

‘Where both disputants are members of a political organization well adjusted to the state of opinion of all its members, peaceful solution is probable. Where the superior organization is not so adjusted, where it is either too strong or too weak, violence is likely. International organization is probably inadequate to represent the present world opinion and conditions, so that conflicts between states are peculiarly likely to become violent, much more likely than conflicts between different regions or different groups within the same state. For this reason, one should be cautious in the application of analogies found between intra-state conflicts and international conflicts.

‘If both sides envisage the conflict in terms of law, that is, rationalize their position as a logical consequence of common principles, peaceful solution is more likely than when one or both rationalize their positions in terms of national self-respect, economic needs, or cultural development. The universal acceptance of common principles is more likely in groups of similar culture; and, consequently, the possibilities of this type of rationalization are peculiarly limited in the case of controversies between peoples of widely different culture. Furthermore, within the state, law is more developed than between states; so the legal type of rationalization is easier. International law recognizes a considerable body of ‘domestic questions’—referred to in Article 15 of the League of Nations Covenant—in which states can act on their own discretion alone. Within this field are the regulation of immigration and of the importation of goods; so controversies on these questions are particularly dangerous.

‘Economic differences between peoples in different areas become conflicts only when there is awareness of these differences. This awareness has been greatly augmented by modern means of communication. Awareness of differentials in standards of living, abundance of raw materials, markets, &c., tends to create demands among the people of one area for movement, whether of population or of goods, and, on the other, for obstruction to such movement—with the purpose, on the one side, of economic levelling and, on the other, of maintaining the favourable differential. When such differentials are separated by state boundaries, these demands may cease to be economic and become political demands by the respective states for change or preservation of the political *status quo*. Artificial barriers to freedom of movement are erected by the more favoured state, and these are interpreted as signs of political hostility by the other state. No common basis in law or in loyalty to a superior organization exists; consequently, diverse propagandas are developed, each side seeking to maintain its political position and using every sort of economic, cultural, and political appeal with the immediate purpose of gaining adherence to its position, both among its own population and among foreigners, with only secondary consideration for the actual economic advantages of this position. From such a situation war may easily result.’

Whatever definition is agreed on, it was clear that there are in all international economic controversies two factors that tend to aggravate existing differences, and their presence is often a good test of whether a situation is really one of conflict or not. The first is the existence of organized group interests, including in that term the somewhat exceptional cases where a single concern is so large and so monopolistic that it has more of the attributes of a group than of one individual enterprise among many.

Intense competition, either between producers in a country or on an international scale, is no new thing and, for the most part, does not give rise to situations of conflict because each competing firm forms only a small fraction of the total. But immediately these units become organized into blocs, such as the shipping conferences or manufacturers' associations, or even into large single concerns, like the great oil companies, competition is no longer the delicate process of adjustment analysed in classical economics. It is better described in the language of warfare. Clearly, one reason for this is that an organized group has a much better chance of bringing pressure to bear on its government and of securing official support for its activities.¹

That suggested a second factor which may also be a useful test of conflict. When the interests of a particular group have somehow become identified with governmental policy there is a good reason to expect that competition will result in conflict. An ordinary commercial dispute, in such circumstances, especially if it concerns business men in different countries, will take on a political colour which may make it a subject for diplomatic protest or intervention. The normal processes of business competition are thus turned into something like a trial of strength between two governments. For instance, competition between the shipping companies of the various nations has always been keen; but it becomes a subject for official protest and bitter international conflict when it is known that it is somehow linked with governmental support, such as subsidies. This, and the other forms of indirect financial assistance given by the Japanese Government to shipowners and industrialists, was said to form one of the chief points of complaint directed

¹ See Joseph Barnes, *Government Promotion of Foreign Trade in the United States*, American Council, 1933, p. 24. "The passage of the Webb-Pomerene Act (according to the 1919 report of the Federal Trade Commission) was a signal for an outburst of fear and criticism in some of the foreign countries, where it was imagined that this country, with its tremendous power, would absorb the business of the world through legalized combinations. The international press was generally hostile, and in the respective countries manufacturers were urged to combine to meet "the invasion" of these American combinations formed under the Webb-Pomerene Law. The press of Denmark, the Argentine, and, in some instances, Great Britain and her colonies, believed their respective countries were about to be exploited."

against the so-called unfair Japanese competition, which has been agitating the minds of English, Indian, and American producers in recent times. Those groups that have opposed the recognition of the Soviet Union or the negotiation of trade agreements with it have always made much of the charge that Soviet foreign trade, because it is a governmental monopoly, can be, and has been, used as a political weapon. An excellent example of the complicated international retaliations which arise from a situation of this sort was found close at hand, in the influence which Canadian wheat and lumber interests had brought to bear, first on the Canadian and later on the British Government, in order to secure the denunciation of the Anglo-Soviet Trade Treaty. Such union between business and state policy was seen also behind all international disputes over tariffs. It had provided abundant instances of economic conflict, first, in the United States tariff increases of 1930, second, in the preferential agreements concluded at the Ottawa Conference, and third, in recent anti-Japanese provisions in the Indian tariff.

Similarly, it was apparent in the Banff discussions (and throughout the League of Nations deliberations on the Sino-Japanese dispute) that the Japanese hostility to the boycott in China had been greatly intensified by their conviction that the Nanking authorities and the local Kuomintang officials were definitely sponsoring if not enforcing the boycott. In another field of activity, namely, the subsidizing of agricultural exports, it was clear from certain round-table discussions that international controversy, if not open conflict, was likely to arise out of the proposed American plans for stimulating the export of wheat from the Pacific North-west at less than domestic prices by compensating the exporters for the difference out of the millers' processing tax. The continuation of such state-aided dumping, it was thought, could hardly fail to disorganize world markets and arouse intense resentment in other exporting countries.¹

One of the most striking examples of international ill will resulting from the alliance of government with sectional business interests was seen in the ill-fated Stevenson rubber restriction scheme which operated from 1922 to 1928 in British Malaya. There was resentment on the part of the Malayan planters participating in the scheme at the refusal of the Dutch authorities to bring the Netherlands East Indies producers into it as well. Still more serious, however, was the hostility in the United States, the principal consumer of rubber.

¹ Subsequent events seem to have justified this fear. The International Wheat Marketing Committee meeting in London on December 14, 1933, charged the Pacific Northwest Emergency Export Association with obstructing world recovery in wheat prices, despite denials from officials in the United States Department of Agriculture.

'The close interest taken by the American Government in this question of Malayan rubber restrictions, its definite association with the American manufacturers' protests against the Stevenson Scheme, and its categorical pronouncements regarding the iniquity of artificial control of any kind of raw materials, gave the rubber problem a definite political character, in view of the fact that it was being enforced through the direct action of the British Government.

'The Stevenson Scheme was characterized as a species of trade war by Mr. Hoover, then Secretary of State for Commerce, who took a leading part in the negotiations for abolishing the scheme. In a public letter in 1925, he advocated the following measures "to defend ourselves against foreign monopolies, with special reference to the British rubber restriction scheme":

1. Our bankers can be discouraged from giving American credits to the support of these combinations.
2. We should initiate a strong systematic campaign for voluntary saving in the use of every one of the commodities where these combinations become extortionate.
3. We should stimulate the manufacture and use of substitutes.
4. We should stimulate production in countries where the commodities in question are not likely to be subject to such combinations.
5. We might set up some sort of properly controlled machinery for emergencies, which would prevent our many hundred buyers from bidding against each other.

'The agitation aroused by this rubber question among the American people was so strong that it was believed in certain quarters in England that the United States Government would attempt to retaliate by an export tax on cotton, though this was entirely without foundations.

'The whole scheme as it reacted on British-American relations is a good example of the kind of international friction which is almost inevitable when widely used raw materials are subject to rigid national control.¹

TYPES OF ECONOMIC CONTROL²

Conference members had little difficulty in describing examples of economic conflict throughout the Pacific area. There were many, however, who insisted that it was not enough merely to list and classify situations of this sort; the important thing was to discuss methods of controlling the maladjustments and strife of an anarchic economic world. Such a view, of course, implies that control and planning are

¹ *Notes on Raw Materials in the Far East and Pacific Dependencies*, Study Groups Department of the Royal Institute of International Affairs, 1933, pp. 18-19.

² The Pacific Council at the Banff Conference authorized the Secretariat to publish about June 1934, in one volume, a collection of data papers on commodity control in the Pacific area, together with an introductory chapter on the international bearings of control schemes. For the contents see below, Appendix V, p. 473. In the present chapter, therefore, the various schemes discussed are described only in brief outline.

socially desirable in the international as well as the national order of things. As might be expected, there was sharp disagreement on this point in the conference. Many felt that half the economic conflicts under discussion were the inevitable outcome of the arbitrary and unrelated interferences of governments or groups with the normal course of business—the result of the absurd and dangerous shackles everywhere imposed on competitive enterprise, though nowhere with more viciousness and less common purpose than in the sphere of international trade. Give business a little respite from these senseless restrictions, they said, and most of the outstanding disputes will speedily and smoothly resolve themselves. Economic conflict, it was argued, is no more than the unfailing symptom, or at any rate the certain outcome, of control.

Few, even of those who were planners by conviction, denied the assertion that schemes of control had often been accompanied by dissension and conflict. Their reply was rather that in certain cases such an outcome must be frankly faced as inevitable, since there are always strongly entrenched vested interests in a community whose desire for profit runs counter to what is socially desirable and who cannot be expected to relinquish their privileges without a struggle. Perhaps a more convincing reply was that conflict arising from a plan of control indicates that the *method* of control was bad or inadequate, not necessarily that the idea of control itself was to be condemned. In any case, the fact had to be recognized that merely to ask for the abandonment of control was impracticable. States or communities have always imposed certain minimum requirements on the conduct of business and have frequently, in good times as well as in bad, interfered to change the natural course of economic activity by such controls as tariffs or welfare legislation. What has been harmful in the disputed forms is not that they impose restrictions but that the restrictions are either unplanned or else solely in the interests of a group whose welfare does not coincide with that of the community. That being so, the answer to the evils of contemporary restrictions is not less control but better control.

Such a discussion, conducted purely on an abstract plane, would not lead far. But in the round tables it was realized by advocates of control as by their opponents that, to know the possibilities and limitations of economic control, it is necessary first to look at the working of existing forms. There are many such in the Pacific area. They are of great variety in scope, in age, in the manner of their operation, in their costs, and in the circumstances of their origin.

In scope they range from the Soviet type of centralized planning with a complete state monopoly over foreign trade, through the opportunist and somewhat haphazard state socialism of certain Australian states and

of New Zealand, to the paternal government aid for business in Japan. It was too early to say exactly where in this scale of control measures the restrictions evolving out of the American recovery programme would have to be placed.

Control schemes of this type, invading more than one branch of economic life, have thus far been confined within national boundaries. Attempts to form customs unions embracing several countries, or large-scale international agreements on industry and agriculture, have nowhere been put into practice. It was pointed out that perhaps the nearest approach to this goal of international planning over a wide field of economic activity was to be found in the conventions of the International Labour Office. There might also have been, according to some, another approach to this goal in the Imperial Economic Conference of the British Empire, had the actual procedure at Ottawa been less a scramble for tariff concessions on this or that commodity and more a considered allocation of production and markets throughout the Empire. The possibilities of this comprehensive type of control on an international scale were considered less remote in western Europe, for all its intense nationalisms, than in the Pacific area, where the enormous physical distances combined with great social and racial cleavages.

It was found that only in particular commodities or services economic control on a super-national scale had been seriously tried. Even when so limited, it has worked imperfectly and with many creakings. In this category of controls, it was remembered that international agreements may be concluded and successfully operated without the interference or even the official cognizance of governments. International control of a very effective character has been exercised unofficially by cartels in commodities like steel rails, matches, and chemicals. Shipping conferences, despite occasional rate wars, enforce a kind of control actuated by mixed and varying motives which may or may not coincide with the public weal. In fact, the distinction between 'economic' and 'political' conflicts is seldom a real one. The adjective used may depend on whether a particular group or enterprise chooses to gain its ends by working for international control through ordinary business channels, as, for example, by price-agreements, allocations of markets, mergers, and the establishment of branches abroad, or whether it operates through governmental agencies by pressure on parliamentary representatives leading to such official and round-about controls as tariffs, shipping laws, guarantees for overseas loans, and the like. Thus, in effect a cartel may be a more potent international control than a *Zollverein*; and a farming out of Far Eastern markets, as worked out by the Shell and Standard Oil Companies, is an adjustment as important as would be a

treaty guaranteeing the Open Door in those territories. Some, indeed, maintained that international economic conflicts would be settled more smoothly and effectively by direct negotiation between the business interests concerned (between Malayan rubber producers and American tyre manufacturers, to take an historic example, where international ill feeling ran high) than by the clumsier process of government intervention and diplomatic protest.

A rough classification is here made of some important commodities or services in the Pacific area described as subject to either national or international control since the War. (Obviously to include the many war-time control schemes set up in most countries would greatly enlarge the list.)

A. National Schemes.

1. State monopoly—camphor, salt, and tobacco in Japan; salt in China.
2. Export control—meat, dairy products, honey, fruit, kauri-gum in New Zealand; dried fruits in Australia; pineapples in Hawaii; sugar in Java.
3. Export bounties—butter, wheat in Australia; wheat under the working of the American Pacific Northwest Emergency Export Association.
4. Price or output control—wheat under the Canadian Wheat Pool; wheat, cotton, and other commodities under the Agricultural Adjustment Act of the United States; rice and sugar in Australia; rubber in Malaya under the Stevenson Plan.
5. Price stabilization—silk and rice in Japan; wheat in New Zealand; wheat and cotton under the working of the United States Federal Farm Board.
6. Embargo—export embargo on rice from China; import embargo on sugar into Australia, on pulpwood into Canada.

B. International Schemes.

1. The International Tin Restriction Plan and the International Tin Pool, involving the co-operation of Malaya, Dutch East Indies, Siam, Bolivia, and Nigeria. Control is exercised through restriction of production by quotas and by the purchase and marketing of stocks by the Pool.
2. The Wheat Agreement following the Monetary and Economic Conference, involving the principal exporting countries, Canada, the United States, Australia, Argentina, the U.S.S.R., and the Danubian countries, who agree to restrict exports according to a quota, while the principal importing countries agree not to

encourage extension of home production and to lower import duties on wheat when a world price of 63 gold cents per bushel has been maintained for sixteen weeks, and also to relax import quota restrictions when world prices rise. Supervision is through a Wheat Advisory Commission.

3. The International Sugar Agreement, affecting only one Pacific country, Java. Control is by allocation of export quotas, subject to enlargement with increases in world prices.
4. The proposed Silver Agreement of the Monetary and Economic Conference, involving India, China, Spain, Mexico, the United States, Canada, Peru, and Australia. Control will be exercised, in the hope of raising prices,¹ by purchasing, or holding off the market, a total amount of 35 million ounces annually allocated among the principal producing countries.
5. The British Phosphates Commission, for the production of phosphates from Nauru Island. Output is allocated by representatives of Great Britain, Australia, and New Zealand, for home consumption in each country in the following percentages, 42, 42, and 16.²
6. The Meat Quotas agreed upon at the Ottawa Conference for the restriction of meat exports from Australia and New Zealand to the United Kingdom.
7. The International Treaties for the regulation of sealing, whaling, and fishing in the Pacific, involving Great Britain, the United States, the U.S.S.R., Japan, and Canada.³

CONTROL OF SINGLE COMMODITIES

Simply to classify plans in the above categories may be misleading unless it is remembered that schemes outwardly identical in name and purpose may have very different meanings, depending on their economic environment or the conditions of their origin. Similarly, it is not enough to know that Australian consumers paid about £3½ millions a year for the privilege of growing their own sugar in Queensland.⁴ One must also know that part of that cost was believed justified in order to promote a plan of tropical economic development by white labour. Nor could an observer properly appraise the Japanese rice control scheme, which has cost the Government some 150 million yen over the last ten years, if he were not acquainted with the long-standing agrarian distress in Japan, on the one hand, and with the extraordinary insistence of the

¹ See below, Chapter III, 'Instability of Currencies', pp. 61-2, for details.

² See A. H. Charteris, *The Administration of Nauru Island*, Australian Council, 1933, p. 2.

³ See R. A. MacKay, *International Control of Fisheries on the High Seas*. Institute of Pacific Relations, Honolulu, 1929.

⁴ See G. L. Wood, *Control of Primary Commodities*, Australian Council, 1933, p. 3.

Japanese consumer on Japanese rice in preference to imported rice.¹ Moreover, for the statesman or the administrator who looks to these past or existing control schemes for guidance in devising new schemes there is a further danger. So many of the existing controls have been haphazard and opportunist. They have been designed to meet the needs of the moment or to further the interests of a particular group. Others have been born in adversity, when collective action has practically been forced upon unwilling participants by drastic price declines or the sudden loss of a market. Thus, a Hawaiian data paper on the pineapple industry states:

‘Co-operation in advertising, agricultural research, shipping, and labour importation, with all its attendant benefits to the industry, has in each case had its origin in adversity. The present period of the world depression has visited upon the industry the greatest adversity of its history, and has also resulted in the outlining of the greatest co-operative programme in the history of the industry. The greatest aid to the organization of co-operative activities is at present, as in the past, the imminence of financial disaster. The greatest hindrance is the lack of mutual trust. The latter is not due to a lack of understanding, for the same individuals have been associated almost throughout the history of the industry. There have been far-sighted individuals who have, in the past, outlined sound co-operative programmes, but they could not be heard in times of prosperity. The benefits of co-operation could not be enjoyed until the disaster of destructive competition had been experienced. If these generalizations are applicable to industry in general, the present world situation may prove to be one of the most promising epochs that society has ever experienced.’²

The risks in putting too much confidence in plans so conceived were clearly recognized. The hazards of prosperity, namely, the difficulties of preventing outside competition or disloyalty within the controlled group, are only too well known, even in a single nation, as the records of many forms of price-fixing or output control had shown. The dangers are multiplied greatly when the participants come from several nations.

Another defect of single-commodity controls was pointed out. It is that their reactions on other parts of an economic system are seldom foreseen or provided for. It is a defect of peculiar importance to countries whose prosperity chiefly depends on their export trade, as the following comment on Australian schemes suggests.

‘The tendency is for such schemes to begin with general assent, when the exportable surplus is accidental and small, and the cost to the community

¹ See Seichi Tobata, *Control of the Price of Rice* and also Teijiro Uyeda, *Recent Changes in the Japanese Tariffs*, p. 15 (Japan Council, 1933).

² Royal N. Chapman, *Cooperation in the Hawaiian Pineapple Business*, American Council, 1933, p. 14.

negligible. The scheme, however, once adopted, removes the proper economic check to the growth of the industry, and expansion takes place at the general expense up to the limits imposed by the tariff. When exports are much greater than home consumption, a very large increase must be put on home prices to give any substantial help to the industry.

‘What, then, will decide the issue in the final analysis? That raises a spectre of ultimate disaster. “The cost to the consumer must be paid for out of production, and in the last resort out of production for exports. The sheltered industries and occupations (including, of course, the professions), as well as the protected industries, are all supported by the exporting industries, and as these one by one themselves demand and receive protection, it looks as if the day were not far off when the whole burden would fall on wool. The vision that comes is of Australia as one enormous sheep bestriding a bottomless pit, with statesman, lawyer, miner, landlord, farmer and factory hand all hanging on desperately to the locks of its abundant fleece.”¹

The Case of Sugar.

Of all the commodities subjected to national control schemes in the Pacific, sugar was singled out as the best example of the wide difference between control on an international scale and an unrelated series of national controls. A commodity which seems by nature destined for tropical colonial production, it has been fostered by the forced stimulus of tariffs and bounties in regions where it can never hope to compete with the product of Java and Cuba—the two countries which, in a rationally managed world, would by themselves supply the needs of all countries. Yet at present, in the Pacific area alone, plantation cane-sugar is produced under the shelter of protective tariffs in the Philippines, Hawaii, Fiji, Formosa, and Queensland, while beet-sugar is produced in Canada and the United States. In Europe the uneconomic production of beet-sugar by bounties has run to ever greater lengths under the universal desire for supplies available in time of war. The following remarks by a British member at one of the round tables give a fair idea of the situation.

‘In the nineteenth century the source of sugar was cane, which was easily grown. Then came beet, which soon rose to importance in numerous countries of continental Europe. This development was encouraged by an elaborate system of bounties which grew until it became unworkable. A sugar convention (the Brussels Convention of 1903) was therefore drawn up, and all bounties were abolished. But a complete collapse of this agreement followed the outbreak of the war in 1914.

‘Great Britain, a signatory to this convention, has now joined in the race for beet-sugar production, and subsidies and rebates have been granted in

¹ L. F. Giblin, *The Costs of Control* (Economic Record, Marketing Supplement, 1928), quoted in Wood, *op. cit.*

response to the demands of beet growers in the eastern counties. These measures were formulated by the Labour Government, with Mr. Snowden (a staunch free trader) as Chancellor of the Exchequer, and put into force by the Conservative Government following, with Mr. Baldwin as Prime Minister and Mr. Chamberlain as Chancellor of the Exchequer. The result has been the expenditure of 30 to 40 million pounds sterling in eight years. There have admittedly been some benefits: factories have been set up creating employment; farmers have been well paid; some profits have been made from the sale of beet-sugar; the soil is improved; grain crops gain from the inclusion of beets in the rotation. But it is calculated that the cost to the taxpayer of each employee in factories and on farms is twenty-five shillings a day, or more than the value of the sugar itself. No beet-sugar is produced anywhere at a profit.

'In Queensland, to take a different example, sugar production, employing white labour, is very costly to the taxpayer. In Java, however, by improving the strain, the yield has been raised to 6 tons per acre from cane, as contrasted with $1\frac{1}{2}$ tons per acre in Norfolk. There is, therefore, a conflict between subsidy and sun—and it seems likely that the sun will win.

'Meanwhile there is a glut in the world, and Cuba is in a very bad state in consequence. Hence the adoption of the Chadbourne Plan,¹ the result of which has been to raise prices from the previous abnormally low levels. Great Britain has undertaken, at the Economic Conference, to extend the area devoted to beet no further, but proposed to continue the subsidy.

'What is needed is world planning. There should be general agreement on the question, Where can sugar be produced most cheaply? But the growing desire for economic nationalism is in opposition to this: each country at present stimulates production regardless of others. Is it not possible to say that it is wrong to grow sugar in Europe, and that Java, Fiji, Hawaii, &c., should be the sources of the world supply?'

¹ The original agreement of May 9, 1931, which was renewed in 1933, provided for the following export quotas, subject to certain increases if prices rose.

(Thousand short tons)

	1931	1932	1933	1934	1935
Cuba to U.S.A.	2,886	3,136	3,136	3,136	3,136
Others	734	902	958	958	958
Total	3,620	4,038	4,094	4,094	4,094
Java	2,535	2,645	2,756	2,866	2,976
Europe	1,646	1,481	1,426	1,426	1,426
Total	7,801	8,164	8,276	8,386	8,496

A subsequent Javanese proposal for an international selling pool was not accepted. It is worth noting that the sub-committee on sugar at the London Monetary and Economic Conference, after studying a report from the International Sugar Council, expressed its opinion that the results of the Council's negotiations made it 'possible to contemplate the conclusion of a general agreement on the production and marketing of sugar'. See *Report to the Bureau of the Conference* (Conf. M.E. 22), p. 25.

The discussions which followed this statement furnished ample evidence of the way in which group interests, even within a particular industry, such as sugar production, come into conflict. Under the shelter of the American tariff on sugar—which was largely a concession to political pressure from the sugar-beet producers of Western states like Colorado—outside territories, such as Hawaii and the Philippines, since they are assimilated within the American tariff area, were enabled to expand production so greatly as to endanger the profits of the domestic beet growers. The latter then had to look about for a device by which their own tariff protection would be assured and which at the same time would shield them from the competition of cane-sugar grown in the Philippines. The most likely method of placing the Philippines outside the American tariff wall was to give them their independence. Hawaiian sugar producers also stood to benefit from the removal of Philippine competition, but unfortunately their position was complicated by their dependence on Filipino recruited labour to work their plantations. In continental United States, on the contrary, it was the desire of organized labour to exclude Filipino immigrants which led them to support the beet growers and other interests who supported the Independence Act.

Even in a single region, such as Hawaii, there is a similar confusion of aims. Climatically Hawaii is well suited for sugar production; and its relative nearness to the American market gives it a further natural advantage. But though yields of sugar per acre are exceedingly high, costs are also high, largely because of the high standards of living which must be maintained for plantation labourers. Though these men are recruited from the Philippines at wage rates low by some American standards, they are nevertheless very high when compared with those of the great producing areas of Java or Cuba.

The Japanese sugar industry was reported to be full of similar opposing interests. On the one hand are the investors who have a stake in maintaining the highly protected Formosa industry at the expense of the Japanese consumer. On the other are the great refineries in Japan which seek to develop an export market, cannot sell expensive Formosa sugar abroad, but must depend on cheap Java sugar imported for refining and re-export.

‘When Taiwan became Japanese territory, the Government undertook to protect cultivation of sugar cane and the sugar-refining industry of the island. At that time, the tariff on refined sugar was fixed by treaties; and it was, therefore, not possible to protect refined sugar by import duty, although various other measures were adopted for its protection.

‘After the treaty revision of 1911, both raw sugar and refined sugar came

to be protected by high duties. However, the cost of production of sugar is still very high, and sugar manufacturers are eagerly demanding an increase of duty.

‘Both customs duty and excise are imposed upon sugar, so that the price is raised to about five sen per kin. The state revenue from the sugar excise is about Y80,000,000, and the amount paid by consumers to sugar producers by the operation of the customs duty is estimated to be about Y60,000,000. Although sugar dealers and confectionery manufacturers are demanding a decrease in the sugar tariff, the realization of their desire is very remote, as sugar manufacturers have great political influence.

‘The sugar industry of Japan developed under the protection of the Government; and several years ago it became possible for it to supply the demands of the entire country, while the exports to China were valued at Y20,000,000 to Y30,000,000 a year. Although to all appearances the industry is a prosperous one, and one which politicians regard as an example of the success in the protection of infant industries, nevertheless, in view of the fact that the retail price of sugar is more than 20 sen a kin, it must be considered a failure. The exportation of sugar to China is made possible by refining the raw sugar imported from Java, as the cost of production of the Java sugar is said to be one-half of that from Taiwan.’¹

The Case of Wheat.

Examples of the difficulties arising out of unrelated control schemes were not drawn exclusively from the sugar industry. Wheat alone, if developed, would provide material for a volume on control schemes and their aftermath. Apart from such large schemes as the Canadian Wheat Pool and the work of the United States Federal Farm Board on the crop reductions aimed at under the new Agricultural Adjustment Act, wheat production is subject to some form either of control or of state assistance in New Zealand, Australia, and Japan. In New Zealand, which is not normally a wheat-exporting country, the control is exercised by a Wheat Purchase Board.

‘The functions of the Board are to control the purchase and marketing, both internally and externally, of all except “free” wheat in New Zealand. Free wheat is that which has been rejected by the Board as not up to f.a.q. (fair average quality) milling wheat standard; wheat which has been resold by the Board for gristing into wheat products for human consumption only; and wheat resold to an intending grower, broker, or merchant for seed purposes only. Thus the Board controls the purchase and resale of all f.a.q. milling wheat in New Zealand.

‘All purchases and sales of wheat by the Board are made through the agency of brokers appointed by the Board, each broker being authorized to act in a particular district only and to operate upon prices set from time to

¹ Teijiro Uyeda, *Recent Changes in the Japanese Tariffs*, Japan Council, 1933, pp. 11–12.

time by the Board for various varieties and qualities of wheat. The brokers receive $\frac{1}{2}d.$ per bushel from the Board as commission upon either purchase or sale.

'Although not primarily designed to control export or import, the Board has already taken steps to maintain internal supply and price levels by importing f.a.q. milling wheat from Australia before the commencement of the New Zealand milling season, and by controlling the export of a part of the unusually bounteous crop of wheat harvested during the early months of 1933.

'There appears every evidence that the rational planning which is the objective of this newest of the New Zealand Boards will provide a definite improvement from the point of view of growers, flour millers, consuming public and all concerned in the industry.'¹

In Japan, where wheat is still of secondary though increasing importance as a food, there has been a consistent policy of what must be regarded as uneconomic tariff protection of the wheat grower.

'The total production in Japan of barley, wheat, and rye is about 20 million koku, and as food they rank second in importance to rice, the annual production of which is 60 million koku. Formerly barley was extensively cultivated, but the production greatly decreased as the general standard of living advanced. The production of wheat has increased a little, whereas the consumption of wheat in recent years has increased rapidly. The importation of wheat has become quite large, and in some years the amount has reached ¥80 million, or almost the same amount as the wheat produced in this country. The increase in the import of wheat is due to the fact that large areas of land which formerly produced wheat have been turned into mulberry farms and also to the fact that the industrial population is rapidly increasing. Generally speaking, these conditions reflect the internationalization of the economic life of the people. But Japanese farmers have been demanding a tariff on wheat for many years.

'The Government, in submitting the tariff revision of 1916, proposed the abolition of the tariff of 75 sen per 100 kin on wheat, in order to lower the duty upon daily necessities; but in the Diet this proposal was rejected by agricultural interests, and not only was the plan opposed, but the duty raised to ¥1.50 per 100 kin, or double the former duty. This duty was equivalent to more than 40 per cent. *ad valorem* at the time when the price of wheat was low, which was before the fall of the yen. But still farmers were not satisfied with this duty and demanded another increase, and in 1932 the bill increasing it to ¥2.50 per 100 kin was passed by the Diet. It was said that as wheat could be raised as a winter crop on rice-fields, the advance of the wheat price would give relief to the suffering farmers. On the other hand, the milling industry vigorously opposed the increase of the wheat tariff on the grounds that despite tariff protection the production of wheat was annually decreasing,

¹ R. G. Hampton, *Export Control Boards in New Zealand*, New Zealand Council, 1933, pp. 15-16.

and that wheat cultivation was limited to only a few prefectures in the country, furthermore, that wheat consumers were mostly farmers, and therefore an advance in the price of wheat would not relieve the farmers. Although it is true that the relief of small farmers is urgently needed, it is doubtful whether the wheat tariff is the proper measure for securing relief. If the production of wheat is not increased by this policy of protection it is absolutely valueless. Then, again, if the wheat crop is to be increased by a protective tariff, it will result in creating a demand for permanent protection, as happened in the case of the sugar industry.¹

Australia ranks high in the wheat-exporting nations of the world, and it is therefore somewhat surprising to find that wheat production is subject to both control and state financial aid.

‘Wheat growers are subsidized by the Federal Government by means of a bounty of 4½d. a bushel. Organizations for marketing wheat have been established in each state. Co-operative voluntary pools exist in New South Wales, Victoria, South Australia and Western Australia. The single compulsory wheat pool is established in Queensland, where the small crop is marketed by the State Wheat Board. The acreage production for the ten years 1921–30 was 135·4 million bushels, of which flour and wheat to the equivalent of 97·5 million bushels a year were exported. The costs of the wheat bounty probably total £2,500,000 a year.’²

The costs which consumers and taxpayers must meet for all these smaller wheat control schemes are tiny when compared with the vast operations of the United States Government in controlling wheat prices, as described in an American data paper. Even before the new policy of subsidized acreage reductions was initiated in 1933, the Federal Government had laid out great sums of money through the Grain Stabilization Corporation in the effort to maintain wheat prices. This body had between May 1930 and March 1933 purchased a total amount of 370,278,000 bushels of cash wheat and 538,337,000 bushels of wheat futures. Its borrowings from the Federal Farm Board to finance these operations had reached the sum of approximately \$580 million by March 31, 1933, and the estimated net loss to the revolving fund from the entire wheat stabilization operations reached the sum of \$184 million, of which \$160 million was incurred on the actual stabilization operations and \$24 million on donations of wheat for charitable purposes.³ With the Agricultural Adjustment Act, the American Government has now gone a long way beyond its earlier policy of price stabilization. The new programme provides for a direct 15 per cent. reduction of wheat acreage by farmers in return for bounties paid out of the pro-

¹ Teijiro Uyeda, *op. cit.*, pp. 13–14.

² G. L. Wood, *op. cit.*, p. 3.

³ See E. S. Haskell, *Stabilization Operations of the Federal Farm Board*, American Council, 1933, p. 20.

ceeds of a tax of 30 cents per bushel on wheat milled for domestic consumption. The hope is thus to take 9 million acres out of cultivation, of which rather more than one-half had been pledged by September 1933. Similar plans to reduce the output of other staple commodities, such as corn, cotton, and hogs, are also included in the programme. The total costs of the compensation in the form of bounties and raised prices could not be predicted at the time of the Banff Conference, but they are bound to be great.

Such a plan may be justified and practicable for a country like the United States where there is a large domestic market for agricultural products and where, taking the country as a whole, there is considerable diversification of farming. In Canada, however, conditions differ. According to the remarks made at a Banff round table by a Canadian member connected with the western wheat pools, a policy of acreage restriction could not possibly be enforced. Here, as in large parts of Australia and the Argentine, wheat growing is the only possible occupation open to the farmer. Moreover, for Canada at least, the whole export trade of the nation (and thus its international financial position) depends to a very large extent on the wheat industry. He went on to suggest that to a direct acreage reduction scheme the Canadian Government would probably prefer a system of allocating quotas for export, first to the principal exporting countries and then to the various provinces and districts.

An international plan of this general type was, in fact, accepted at London during the course of the Banff Conference. In the wheat agreement signed on August 25, 1933, the four great exporting countries agreed to reduced export quotas based on an assumed world import demand of 560 million bushels during the period August 1933 to July 1934, and on maximum figures 15 per cent. less than the average output on the average acreage sown during 1931-3 after allowing for normal domestic requirements. The actual quotas (in million bushels) are: United States 47, Canada 200, Australia 105, Argentina 110. A proposed quota of 37 for the Soviet Union had not yet been accepted by that country.

National Controls.

Such agreements as this and the other types of international economic control discussed at Banff are, with all their defects, an improvement on a haphazard series of controls organized on a purely national basis. Yet even the best international agreement, it was argued, may be open to serious criticism in so far as it concerns only one economic group (producers, for example, as against consumers) or is confined to a single

commodity without regard for competing or substitute commodities. More serious still was the objection that a rigid control in one commodity or industry may very well impose added and perhaps undesirable burdens on other parts of a country's economic machine, and may unjustifiably close important channels of international exchange.

It was partly to consider criticism of this order and partly to meet the desires of those conference members who wished to discuss possible future schemes of international control that the Programme Committee organized a special round table on 'Methods of Adjustment and Control in the Pacific Area'. In its two sessions this group gave most of its attention to a suggested plan for governmental control or monopoly over the entire foreign trade of a nation. As outlined, the foreign trade monopoly would be combined with a plan for the orderly marketing of selected products on a quota basis determined by international agreement with other countries and including reciprocal agreements for the expenditure of the proceeds derived from the sale of the products in the importing country. Thus, a country exporting chiefly to Great Britain, for instance, would arrange with its fiscal agents in London that the proceeds of its exports would be used first to meet service charges on loans or other obligations. The balance would then be allocated to its own home importers who wished to purchase goods from England, classified in the following divisions: first, allocations for necessary 'invisible' changes—such as shipping freights, insurance and the like—together with allocations for the purchase of essential goods not produced at home; second, allocations for the purchase of goods which cannot be economically produced at home; third, any balance for extra loan retirements or for other goods which can be manufactured at home.

Certain obvious but hardly conclusive objections were raised against such a plan on the familiar ground of governmental inefficiency in business. Other objections had to do with the question of whether such a trade monopoly must inevitably involve government control and fixation of domestic prices and thus gradually extend over a great part of the nation's domestic production, as is the case in the Soviet Union. Export control, it was shown, does not always require a plan of guaranteed prices to producers; but, it was added, with a number of selected products a system of guaranteed prices would probably give the best results. If, however, through world price fluctuations, the producer thus received a higher price than was realized in the foreign market, a government might find itself faced with the prospect of making up the difference by special taxation, currency inflation or increased domestic prices for imported goods. In the same way, unless great skill were exercised in the price-fixing process, complications would arise from the

competition of substitute commodities: rayon for silk or cotton, margarine for butter, beef or pork for mutton, to take obvious examples. Difficulties such as these might perhaps be met successfully where the export trade is confined to a few important primary products, or better still where the plan could be developed from a partial control scheme already in operation, such as the export control boards in New Zealand. But other countries, as a Canadian member argued, would find it much more difficult to initiate such a scheme when their exports comprised a great range of manufactured products as well as raw materials. In any case, whether control were effected directly through a quota system or in a more roundabout way by exchange control, a necessary adjunct to the machinery of control would be a central bank. The bank would have to be publicly owned and subject to some ultimate public control, but it should operate under a maximum of freedom from political interference.

Members did not contend that an export monopoly of this sort, with all the rigidities it would fix upon a nation's economic machine, would have the advantages that are supposed in theory to flow from a system of free trade. It was advocated frankly as something which, in a world of growing economic nationalism, was likely to give better results than the anarchy prevailing to-day. In answer to objections derived from an impulse to dispose of all such proposals as Utopian, members of the round table pointed out that the commodity agreements following the London Monetary and Economic Conference probably marked a beginning in the trend towards controlled export trade. The London Conference, it was recalled, had passed resolutions urging that international councils or similar bodies should be set up to co-ordinate the production and marketing of the following products: dairy produce, sugar, wine, coffee, cocoa, timber, coal, copper, and tin.¹

A PLAN FOR INTERNATIONAL CO-OPERATION

The Banff Conference also had before it a proposal, from an American student of the problem, for an international council of a somewhat different character. The essentials of this plan, which was considered at a special group meeting of interested conference members, are contained in the following extracts from a data paper:²

'Most collective efforts at international co-operation so far have been largely for the purpose of setting the rules of the game, of establishing conditions under which international commercial competition might proceed

¹ *Report of the Bureau of the Conference*, Appendix 2, p. 24. League of Nations (Conf. M.E. 22), 1933.

² Lewis L. Lorwin, 'Economic Nationalism and World Co-operation' (reprinted from *Pacific Affairs*, August, 1933), pp. 9-12.

on a level which would make for world peace. There is no doubt that we have not been entirely successful in that effort. We have had a repetition on a world scale of our experience in national economy. For two generations we tried to set the rules of domestic competition so as to eliminate its abuses. Our American anti-trust legislation was directed to that purpose. Our conclusion now is that the problem is to seek a way out from competitive evils—not in setting competitive rules, but in organizing co-operation. The answer to the international issue lies in the same direction.

‘The question, then, is, What are the objectives towards which world co-operation should aim, and what methods should it apply? On the basis of the analysis made above, the major purpose of world co-operation is to increase simultaneously standards of living throughout the world and to plan production in such a way as to give each country an opportunity to develop its potentialities as fully as possible. The major line of development at present is in international agreements for the regulation of the production and distribution of world commodities. While I am not in entire sympathy with the procedure followed in London, which is based more upon the desire to curtail production rather than to seek the possible expansion of demand, I think that it is a beginning; and that, when the pressure of excessive stock accumulations has been removed, greater progress will be made in the direction of increasing demand.

‘A second line of development might be some form of organized exchange which may have a considerable element of barter in it. A World Exchange Board might be organized to serve as a clearing-house for the study and promotion of exchange between countries of surplus products with a minimum dependence on gold and monetary movements.

‘A third line of development is the possibility of developmental projects, such as have been suggested by the International Labour Office—namely, public works carried out under international control and calculated to increase the real income of the countries where they are carried out, and indirectly of the rest of the world.

‘As to methods, these new needs of world co-operation call for new machinery. If the London Conference fails, it will be not only because of the contradictory interests and thoughts by which it is guided, but also because of inherent weaknesses of the method itself. The conference method of international negotiation is a post-war product and at one time had both justification and possibilities. It was a valuable means for overcoming the animosities raised by the World War and for bringing people together so as to break national friction and difficulties. Perhaps to some extent it was also a reaction against the pre-war diplomacy which was carried on behind closed doors and which the World War presumably was to abolish by substituting for it ‘open covenants openly arrived at’.

‘However, the conference method seems to have reached the limit of its usefulness. The problems which are now facing the world are no longer merely matters of goodwill but problems involving careful study and investigation. They require time and systematic application in view of continuously changing

conditions. They call for clarification and for the preliminary elimination of preconceived ideas and prejudices.

'In view of all this, world co-operation now depends for its success as much upon the invention of new devices as upon the formulation of proper objectives. The method which suggests itself is that of continuous negotiation through research carried on co-operatively by all nations. This method calls for the organization of permanent bodies and committees which would pursue specific programmes continuously and which would help the process of conversion within separate countries of those responsible for national policies.

'It is in this respect that co-operation between the United States and the League of Nations is both desirable and possible. The technical committees of the League, especially its financial and economic sections, represent the beginnings of such bodies as have been indicated above. They could be made the basis of still larger bodies—with representatives also from the United States and other countries not members of the League—for the continuous study of the problems of world economy as they emerge in the course of ever-changing situations and activities.

'In brief, we must apply ingenuity and courage in projecting on a world scale the changes which are taking place in the forms and methods of national life. The general tendency within nations is towards the concentration of the process of formulating policies and of carrying out decisions. To weave such national methods into a world co-operative policy is no easy task. But we must achieve it—for on our success or failure in this respect hinges our fate.

'Applying these general principles to the Far Eastern situation, I would recommend the organization of a Pacific Development Council for the purpose of promoting co-operation in the economic development of the Pacific countries. It may seem preposterous to offer such a suggestion at a time when friction in the Far East has reached so high a point. But it is that very fact which makes such an enterprise especially desirable, justifying all the special efforts necessary for its realization. If those countries interested in the Far East could be made to engage directly and systematically in the investigation of possibilities of developing unutilized resources, of building up the wealth of the entire Far Eastern area and of putting people to work, of stimulating all industries—small and large—and of inaugurating a series of developmental projects on a large scale, we might see a diversion of interest from political entanglements and conflicts to economic matters, promising more of the good things of life to all concerned. There are several projects that lie on the surface of things, and these could be attacked at once—such as road building, settlements on the land, promotion of rural and small-town industries, flood regulation, &c. What is necessary is to have a permanent body devoted to their study and promotion.

'If this idea has any validity, might it not be possible for a committee of the Institute of Pacific Relations to take the initiative in forming the nucleus of the Pacific Development Council which should in the near future become a semi-official body? Such a body might be composed of representatives from the United States, Great Britain, France, the Netherlands, the U.S.S.R.,

Japan, China, and Australia, with special representation from the League of Nations and the International Labour Office, acting in conjunction with advisory committees of representatives of private business. Many ideas of this character suggested in the last few years have seemed far-fetched and Utopian. At the Kyoto Conference, only four years ago, the writer indicated the possibility of a rapid conversion of all *laissez-faire* countries to economic control and planning, and also the possibility of international attempts to regulate the production of world commodities and their world distribution. At the time, these ideas seemed abstract and academic. But to-day they are in the centre of world discussion. There are those who delight in analysing things for the purpose of indicating the difficulties and limitations of change. But may it not be wiser and more helpful, even at the risk of appearing theoretical, to try to glean from the confused thinking of the time the kernel of ideas which belong to the future ?

The distinction between this form of comprehensive international machinery and the separate state monopolies on foreign trade described above is, of course, a reflection of two distinct philosophies which repeatedly clashed in the course of the conference discussions. On the one hand, there is the view thus stated by an American member :

‘There can be no control short of international government. In practice it is impossible to separate such problems as tariffs, currency, security, and markets. There is no chance of treating these in separate categories, or of controlling separate groups. I see no possibility of creating adequate controls except by world government.’

To that contention a British socialist member replied that, however much the ultimate goal of world government may be desired, experience gives little reason to hope that it will come soon.

‘The difficulty is’, he continued, ‘that we have no time to wait for international control. We are in a race with time to get results. Surely, there is a preliminary stage to world control which we can utilize on the way by improving on partial schemes, such as producers’ international agreements. Then there is surely the possibility of voluntary association aiming at agreements on minimum standards of living for all those producing goods for international exchange. There are other institutions working in the same direction. The international labour movement represents the beginning of what may be of tremendous importance, and there are real possibilities for progress in the international body of co-operative associations. I personally believe that the Institute of Pacific Relations itself has a definite purpose to serve along these lines.’

The discussion of possible forms of world government led an observer from the International Labour Office to point out that his organization, by virtue of its constitution, has many of the characteristics of an incipient type of world government. By its recognition of class dif-

ferences as well as government interests it makes possible a bridging of the often insuperable gap between group and national interests. Moreover, it is not bound like the League of Nations by a unanimity rule on important questions, but permits of agreement by a two-thirds majority, which is a considerable derogation from the sacrosanct fetish of national sovereignty. It also has provisions, under Article 408, for hearing complaints against states which do not observe their obligations. This article has been used, and there have been cases of nations bowing to rebuke. The speaker concluded his remarks with the opinion that the greatest weakness of the International Labour Office was the absence of the United States, and that the adherence of that country would probably be followed by representation from the Soviet Union as well.

There were many at the round table, however, who doubted the possibility of any world control based on existing forms of national life and economic organization. In their eyes, all the above plans are makeshifts and foredoomed to failure. International government would fail for the same reason that international co-operation fails: the inextricable confusion of national interests with often contradictory group interests actuated by the motive of profit. Without a drastic modification of that motive, they believed, international government might even accentuate social conflict rather than facilitate control. The fundamental question, of whether a modification of the profit motive inevitably involves a violent revolution or whether it can be accomplished by the compromise methods of the National Recovery Act in the United States, remained, in the round tables as in the world at large, unsolved.

CHAPTER II

SHIPPING IN THE PACIFIC

FEW QUESTIONS so well illustrate the complexities and the contradictory tendencies inherent in most situations of international economic conflict as the problem of ocean shipping. It would be difficult, indeed, to find an enterprise in which internationalism and freedom in trade are more muddled up with the divergent sectional interests of protectionism, discrimination, and nationalism in its political as well as its business aspects. Shipping was of interest to the members of the Banff Conference not only because it is a striking example of government interference or participation in private business, but also because with its recurring periods of evident competition followed by agreements, conferences, and other forms of economic armistice, it reveals many of the difficulties that lie in the way of all similar attempts at co-operation and self-control in large-scale capitalist enterprise.

‘Merchant shipping engaged in foreign trade presents a paradox. On the one hand, it is primarily national in character; no economic activity is more susceptible to state supervision and political manoeuvres. On the other hand, the international merchant marine is basically international. National and international policies are nearly certain to conflict with each other, because even under the most favourable circumstances they cannot be in complete harmony; hence the situation immediately involves uncertainty as to the wise formulation of maritime policies. One can believe the statement that external shipping is a half-domestic industry, for, while official regulations can be set up for the inbound movement of vessels and their cargoes, little can be done to control their outbound movement. And yet shipping, more than any other known business activity, is inherently international in all of its aspects. Neither one-way traffic nor one leg of a journey can stand the costs of an entire voyage; nevertheless the intrusion of a strictly nationalistic programme unfortunately appears practical and not academic to politicians and to millions of educated persons.

‘The facts are surprisingly difficult to discover. Propaganda of the most flamboyant and flimsy type, unsatisfactory statistics, secrecy, and a just pride in past achievements greatly confuse the fundamental issues.

‘Sectional interests, based principally upon differences of resources, occupations, and the relative importance of land and sea influences, determine the broad outlines of economic policy. When the geo-economic forces become meshed with political, military, and naval policies, which is an inevitable evolution, the national interests become increasingly internally and externally dynamic. Is shipping protectionism to be wielded upon a national or upon an Imperial grouping? Can naval strategy be separated from purely trade

motives? Are common-sense methods of transacting general business alien to the best interests of the shipping industry?¹

THE STATUS OF PACIFIC SHIPPING

To these problems, which have characterized merchant shipping even in normal or prosperous times, are now added the immediate difficulties caused by the world-wide shrinkage of international trade, as well as the underlying chronic disease of surplus tonnage which remains as a legacy of the World War. Although the crisis in world shipping has not affected the Pacific (i.e. the tonnage actually used on the Pacific Ocean) as much as other seas, nevertheless it has been very acute in four of the countries represented in the Banff Conference—the United States, Great Britain, the Netherlands, and Japan. The conference round tables, therefore, on numerous occasions turned to the field of shipping in discussions of economic conflict and control. Naturally enough the most frequent point of argument was the question of government subsidies. The facts of the problem are summarized in bold outline in the following tables and extracts:

TABLE I

GROSS TONNAGE OF MERCHANT VESSELS, 100 TONS AND OVER (in thousands)

Country	June 1913	June 1923	June 1926	June 1929	June 1932	June 1933
Great Britain . . .	18,696	19,282	19,400	20,166	19,672	18,701
U.S.A. (a) . . .	5,429	16,884	14,879	14,376	13,442	13,260
Japan (b) . . .	1,500	3,604	3,968	4,186	4,225	4,285
China . . .	87	223	300	319	372	..
Hongkong . . .	..	258	289	295	262	..
U.S.S.R. (b) . . .	974	..	323	440	685	843
Australia and N.Z. . .	..	770	810	678	644	..
Canada (a) . . .	..	1,200	1,240	1,335	1,463	..
France . . .	2,201	3,737	3,490	3,378	3,556	3,512
Netherlands . . .	1,310	2,626	2,565	2,939	2,964	2,766
World Total . . .	..	65,166	64,784	68,074	69,734	67,920
World Laid-up . . .	..	..	..	3,432	14,047	11,462

Source: *International Statistical Year Book*.

(a) includes vessels, other than wooden, on the Great Lakes.

(b) not including Japanese sailing vessels or Russian vessels on the Caspian Sea.

¹ Eliot Grinnell Mears, *Regulation and Promotion of Pacific Shipping*, pp. 37, 38, and 39. This data paper consists of advance sections from the author's book, *Maritime Trade*

TABLE II

TONNAGE OF VESSELS ENTERED WITH CARGO AND IN BALLAST
(in million tons measurement)

<i>Country</i>	<i>1913</i>	<i>1923</i>	<i>1926</i>	<i>1929</i>	<i>1931</i>	<i>1932</i>
U.S.A. . .	53·2	66·3	76·9	82·6	72·8	64·8
Canada . .	15·0	18·5	23·2	27·2	27·0	..
China . .	14·5	20·6	19·7	26·1	25·9	22·2
Japan . .	24·7	37·5	49·2	55·2	54·8	54·0
Philippines .	..	3·4	4·1	5·6	5·2	..
Netherlands India	5·3	6·8	9·2	12·4	10·6	..
Indo-China .	..	3·5	3·8	4·6	4·1	..
Straits Settlements	13·7	15·0	20·1	23·9	21·8	..
Australia . .	5·4	4·7	5·3	5·6	5·6	5·7
New Zealand .	1·7	2·1	2·3	2·3	2·2	2·4
Great Britain .	82·1	90·4	82·3	96·6	89·2	..

'1. The dominant flags in the Pacific are those of Great Britain, Japan, and the United States. There appears no legitimate reason to prophesy any other alinement in the near future.

'2. Other noteworthy flags are the German and Norwegian. Before the War, the German Government gave one of the main shipping subsidies to the North German Lloyd for services to the East Indies, Australia, and China, although there is no evidence that the funds were in excess of actual services rendered. The striking comeback of German shipping presages a return to the western Pacific, and probably an extension to all Pacific ports. Scandinavian shipping is economical and reliable, concerned more with freight vessels than with a distinctive passenger-cargo type of service. The U.S.S.R. is an uncertain factor.

'3. British shipping is on an Imperial basis. Except for one line in Canada and one in New Zealand, British shipping is confined mainly to vessels registered from the mother country, which in the past have had the advantage of low building and operating costs, principally because of the following three causes, as summarized in the 1918 report: (a) the strong industrial position of the United Kingdom itself, based on free access to the markets of the world for foodstuffs and raw materials; (b) a world-wide Empire with well-distributed coaling-stations and ports of call; and (c) a large coal export trade which provided ships with outward freights which would otherwise have been lacking. The strength of the British Commonwealth was never so great as

of Western United States, to be published by the Stanford University Press. The paper has three sections: (1) Historical Résumé of the British and American Shipping Conferences; (2) Pacific Shipping Conferences; (3) Government Subsidies in Pacific Trades. See also the fortnightly I.P.R. Memorandum, vol. ii, No. 20 (*Government Subsidies in Pacific Shipping*), American Council, Institute of Pacific Relations, New York.

it is to-day, but the drop in the United Kingdom coal exports from 76,687 thousand tons in 1913 to 45,909 thousand tons in 1931 and to 41,895 thousand in 1932 (the published statistics of the Liverpool Steam Ship Owners' Association) is a disturbing feature in the maintenance of low building and operating costs. The rapid increase in the number of oil-burning vessels upsets the former ratio of inbound merchandise to coal exports in such a way that British marginal profits and foreign subsidies are thrown into a close relationship.

'4. Japanese shipping is concentrated in the Pacific. The most important foreign maritime connexions are with Pacific North America. Military operations on the Asiatic mainland during 1931 to 1933 have tended to accentuate the depression in the shipbuilding and shipping industries, coincident with the world economic crisis, with the double effect, however, of replacing the old tonnage by new owing to important shipbuilding subsidies, and the creation of the integrated Ship Improvement Institution. There is persistent rumour of a merger of the three leading shipping lines. From an international point of view, it is questionable whether Japan has not embarked permanently on a significant subsidy programme, because shipbuilding materials must continue to be imported and her geographical position is not too attractive.

'5. The United States is in a decidedly disadvantageous position compared to more than one foreign country with respect to shipbuilding costs, yet a foreign-built ship cannot enter the coastwise or intercoastal service of the United States or, except under certain conditions, obtain American registry. There is the further handicap that the combination of unusually favourable building costs and postal subventions is limited to vessels built in American yards. These navigation Acts, therefore, increase ship-purchase costs to the extent of the difference between the home and the foreign market (30 per cent. to 50 per cent. higher in the United States than in Europe is not unusual), which is an extra expenditure to be absorbed in the protected trades but far more burdensome in the open trades. Add to this extra investment, which must be amortized sooner or later, the much higher operating costs of vessels under the American flag, and the necessity for a continued subsidy becomes economically understandable. As long as the United States adheres to her policies of protecting private shipyards and maintaining a high standard of seamen's wages and conditions—and no prospect whatever of reversal of policy appears—then some kind of substantial subsidy is needed to keep the merchant marine on the long sea trades. The connexion between the commercial and the naval fleets of the United States is unmistakably expressed in the Merchant Marine Acts.

'6. Everywhere, direct and indirect taxes of nearly every kind show a marked tendency to increase appreciably. Although the shipowner possibly may reduce the operating costs somewhat by lower salaries, wages, and material costs, scant relief is possible with respect to port charges, taxes, and official payments of various descriptions.

'7. Private ownership of shipping is the rule on the Pacific. The experi-

ments of the United States, Australia, and Canada have been universally acclaimed as failures. At best, treasury accounts are not easy to unravel. Subventions are less veiled and less objectionable under government control than under government ownership.

'8. Uniform rates are characteristic of Pacific shipping. Tramp vessels are relatively unimportant, and most liners are members of regional conferences. These stabilized conditions are distinctly helpful features in removing the economic justification for additional subsidies.

'9. Because of the long voyages, the competitive features, the undeveloped resources and tremendous potentialities of Pacific lands, this sea region is more likely than any other to invite subsidy schemes.¹

The discussions began in two round tables with an introductory statement by a British member with considerable practical experience in Pacific shipping. His remarks, based in part on the data paper quoted above, are here reproduced.

'The Pacific shipping routes in which we are interested may be divided into three main groups: America to Asia; America to Australasia; and Australasia to Asia. The first of these is most important. There are a great number of regular lines running in both directions to and from San Francisco, Portland, Puget Sound, and Vancouver. Most of these lines do not extend beyond the Philippines, but there are some which go on to Java and Calcutta. The companies which run them are in the main Japanese, American, and British, with some Norwegian and Dutch. The Dutch are interested in a line from Java to Calcutta. Besides these trans-Pacific routes, there are lines from New York and other ports of the Atlantic coast of America via the Panama Canal to northern Asia, which touch at such Pacific ports as Los Angeles. From the shipowners' point of view, the tonnage in the Pacific trade is ample if not excessive. The volume of cargo west bound greatly exceeds the volume east bound. The west-bound cargo consists in the main in staple products from the whole northern part of America (there is little distinction in this respect between the United States and Canada) and is made up largely of timber, wheat, flour, paper, and salted fish, whereas the cargo in the other direction is tea, silk, porcelain, and tropical products, which take up much less space relatively to their value. The trade is not very easy to deal with because of the dissimilar character of the cargoes, for it is very difficult to arrange to alter a ship in accordance with the direction in which it is going. It would take quite different ships to carry the different cargoes in an ideal manner.

'It must be realized that for the Philippines and places south and west there are two alternative trade routes to North America, with considerable competition among the various lines as a result. Goods may come across the Pacific to the west coast of North America, or may be sent round the world via Suez to the Atlantic coast. Generally speaking, ships take cargo

¹ Eliot G. Mears, *op. cit.*, pp. 69-71.

from the Atlantic coast via Panama to northern Asia and return via Suez with cargo from southern Asia. This choice of routes also gives rise to another form of competition affecting the transcontinental railways of Canada and the United States. The railways naturally try to get trans-Pacific freight (for example, Philippines products shipped from Manila to San Francisco), to be hauled overland to the Atlantic coast, while other shipping lines try to bring it directly to the Atlantic coast via Suez. In order to secure these long hauls, the railways have therefore tried to undercut the freight rates on the all-sea routes. Their own power to reduce rates is rigidly limited by the Interstate Commerce Commission, and accordingly they have made a persistent effort to have freights kept low on the trans-Pacific lines.'

THE QUESTION OF SUBSIDIES

'Then we come to the question of subsidies', he continued. 'I should like to refer you to one or two passages in Professor Mears's paper. He refers, first of all, to the British subsidies: "In marked contrast to the British policy, which has generally been one of unusually moderate subsidies to a few lines (in fact, some of the payments on account of mail services hardly can be called subsidies), Japan has enacted far-reaching programmes of official aid to national shipping." That partly clears Great Britain of the charge of promoting its mercantile marine by subsidies. Next there is a reference to the trans-Pacific service of the Canadian Pacific Steamship Company, that "between 1914 and 1917 the Canadian Pacific Railway received \$375,000 annually from the Canadian Government for twenty-six trips to China and Japan. (Previous to that time, as noted, Great Britain shared the expense of this postal subvention.) The contract stipulated that neither passenger nor freight rates should be in excess of the rates charged on ships of a similar class from the United States ports on the Pacific." I have not found out what subsidies the Canadian Pacific ships receive now, but for the above twenty-six trips it worked out at less than \$15,000 a trip—not an excessively large amount when it is remembered that they are in fact first-class fast ships and carry mail. As regards more recent British practice, the author says: "In 1921 was passed the British Trade Facilities Act, which authorized the treasury to guarantee loans made for the manufacture or purchase of articles which would promote employment in the United Kingdom. Since the prime object was unemployment relief, the Act applied to work undertaken on foreign account as well as on British."¹

' "A number of shipping companies availed themselves of the facilities of government credit thus extended by ordering new ships to be built in British yards. The Government looked with special favour on these loans, for they not only provided employment but also maintained shipbuilding yards for meeting future requirements of the merchant marine and navy. Loans aggre-

¹ As originally passed, the Act provided that the total amount to be so guaranteed should not exceed £25,000,000; this maximum was later increased to £75,000,000 by the final Act passed in 1926, which extended the period of the facilities by one year.

gating some £23,500,000 were guaranteed in behalf of shipbuilding, on terms ranging from five to twenty years.¹ Interest rates varied considerably but averaged around 5 per cent."²

'Now, that Act has produced a large number of British ships which, I think, were probably not wanted; and to some extent the effect of that Act, which was a kind of subsidy, was to produce an excessive British tonnage on the Pacific Ocean. A few foreign ships were built, notably one or two Italian vessels and some Norwegian especially designed to carry locomotives and engines. This is one of the worst forms of subsidy, since the Government must guarantee a loan to a man whose credit is bad. If his credit is good he can borrow on his own account, but in this way the Government is actually giving assistance to the man whose standing is bad. I think that that catastrophe of the Royal Mail Company was largely due to the overbuilding of vessels on the strength of this guarantee.

'Next we must consider the subject of Japanese subsidies. "Receiving annual subsidies, for example, are the three trans-Pacific services of the Nippon Yusen Kaisha which absorbed the Toyo Kisen Kaisha in 1926: one line from Japan to Seattle (\$850,000); one from Japan to San Francisco (\$1,400,000); and one to the west coast of South America which calls at American Pacific ports (\$1,100,000)." That is a subsidy on a pretty liberal scale, for a service no better than the Canadian Pacific line running from Vancouver to Yokohama and Hongkong. You will find that the Japanese Government are also paying large subsidies to encourage shipbuilding and are therefore producing a very large amount of tonnage which is not economically desirable. There is, in addition, a good deal of Japanese tramp shipping on the Pacific, not subsidized to my knowledge. Many of these are owned by the large importing firms, like Mitsui, and carry the firms' own cargo.

'Regarding American subsidies, I shall refer to the class of vessels which my firm is running on the Pacific Ocean, because it is easier to make comparisons: "Class 5 (8,000 gross tons or over, 13 knots per hour), \$4.00 per nautical mile."

'My firm is running steamers of over 10,000 tons average from Vancouver to Hongkong via Japan and Shanghai. The distance from Vancouver to Hongkong is in round figures about 6,000 miles, so that the American subsidy on such a voyage and return would be \$48,000—a very tidy sum of money, even at the present rate of exchange. It may be compared with the subsidy of \$15,000 a trip paid to the Canadian Pacific for the same voyage.

'I have tried to find out what it really costs to do the trip with a vessel of that class, and I found that on steamers of 10,000 tons gross at 13 knots an hour, in 1931, the average cost was £14,500 (or about \$70,000). That included charges for handling cargo, establishment charges, and all incidental expenses incurred. For the current year, the cost of the voyage is about

¹ The Government of Northern Ireland in 1922 passed a similar Act, which was extended from time to time up to March 31, 1931. Total loans guaranteed aggregated about £11,500,000 for shipbuilding.

² Eliot G. Mears, *op. cit.*, p. 46.

£12,500 (about \$50,000)—the reduction, I suspect, being due to the fall in the Japanese exchange which materially reduces the sterling price of fuel and other expenses. I believe that a smaller ship—one of 8,000 tons gross register—could therefore probably make the trip profitably on the subsidy without bothering about cargo and passengers.

‘You might like to know what freights we get in this trade. I find that a ship in my company sailing from Vancouver had 9,850 freight tons earning \$27,500. The average rate was thus well below \$3·00 a ton, and if you consider costs you will see that \$3·00 a ton for carrying cargo from four to six thousand miles is cheap. It shows that people wanting to send goods across the Pacific are not in distress because of high freight rates.

‘I come now to the Shipping Conference—the agreements between shippers in the trans-Pacific trade. They are very loose agreements defining more or less areas of operation, ports of loading, and rates. As a rule, they are not drawn up legally and are not enforceable at law. They can be terminated at short notice so that dissatisfied members can readily withdraw. Obviously, the real security of such a business agreement is that it should be satisfactory to all parties. In practice, the personal equation has been very important in arranging these agreements. I recall a case where an agreement was quickly concluded after the death of one member who had had a genius for arousing distrust. A great physical difficulty in getting co-operation and friendly agreement in trans-Pacific trade is that it is almost impossible to bring the parties together. The shipowners are in Tokyo, in San Francisco, in Montreal, and in England, so that it is very difficult to meet together around a table. I have tried to induce some of my Japanese shipping friends to accompany the Japanese group to the Banff Conference, but without success. In Europe it is comparatively easy to arrange for shipowners from Germany, Sweden, Norway, Denmark, Holland, and France to meet together.

‘The second trade route, from America to Australasia, leaving out the Atlantic coast, is not a very important trade and has no great future. There is little reason for an exchange of the main products of North-West America and Australasia. Both regions export cereals, and Australasia could more logically get its timber from Scandinavia as there are a large number of vessels going in ballast from northern Europe to Australasia in order to carry Australasian wheat and wool exports to Europe. There is a certain passenger trade, since the route via San Francisco or Vancouver is slightly quicker between Europe and New Zealand. The Panama Canal route is cheaper and more comfortable, however, and any increase in trade is likely to come here.

‘On the third trade-route, from Australia to Asia, there is some development of exports of Australian wheat going to China and Japan, most in tramp vessels. No one, however, can reckon on that trade to last. Australia is liable to droughts causing fluctuations in the amount available for export; and it is always a question of prices and exchange whether the cereals for the Orient come from Australia or whether they come from the Pacific coast of America, so that there is no sound basis for a regular line of ships. Quite

recently a large trade from Australia to Japan in wool has sprung up. The Japanese are not only becoming manufacturers of cotton, but they now make wool and other textiles. There is a growing tendency to use wool among the inhabitants of northern Asia, especially among the wealthier classes of Japan. This taste may gradually filter down to the poorer classes in the northern part of Asia, and they may adopt more woollen clothes—which would be very good for exports from New Zealand and Australia, though it would adversely affect the producers of silk and silk goods. A considerable amount of Japanese tonnage has come into this business, and, as the wool is bought by the Japanese before it leaves Australia, the merchants naturally prefer to ship in Japanese vessels—in which they are probably interested financially. The depreciation of both the Australian and the Japanese currencies has greatly stimulated this trade, but there is probably a legitimate basis for a permanent line.

‘We heard a great deal during the War about the freedom of the seas. What was meant by that phrase, presumably, was that each country should have the right to make as much money as possible by trading with both belligerents. What we really need is freedom of the seas in peace time, which means, of course, that ports should be open to all. It is greatly to be deprecated that, after the Peace Conferences and the Kellogg-Briand Pact, nations should pay so much attention to possibilities of war in developing their mercantile shipping. Such preparation is the surest way to bringing on the next war, since from the purely artistic standpoint, the professional warriors like to see from time to time if their preparations have been well made. The governmental promotion of national commerce anywhere is a source of international friction. There is no essential difference between subsidies for shipping and subsidies for commodities—meat or wheat, for example—and to subsidize one’s nationals in order to take the bread from the mouths of other countries is not a policy likely to produce peace.’

PURPOSES AND CONSEQUENCES OF SUBSIDIES

There was considerable comment on the many inconsistencies revealed in shipping policies. On the one hand, it was said, nations are making great efforts to raise prices, while at the same time they are spending money which they can ill afford on subsidies leading to ruinous competition and price cutting. Similarly, an inherent contradiction was seen between reduction of prices by subsidies, on the one hand, and the attempt to bolster up prices by high import tariffs, on the other. Some doubts were expressed as to how far, in fact, a nation’s shipping really profits by subsidies. It was argued that one effect (in the Pacific) has been either to encourage the production of unnecessarily expensive speed or luxury vessels, since the subsidy agreements call for certain naval specifications as regards speed and construction, while the Shipping Conferences, by virtue of their agreements, reach the limit of

competition in rates. In general, however, the subsidies result in putting more ships on the sea than are needed, and in forcing down freight rates to an unremunerative level where it simply becomes a question of who can last out longest. At the present time even subsidized shipping was operating at a loss. It was pointed out that shipping subsidies are, in a sense, the reverse of the bounties paid in the United States for the destruction of cotton. To secure this latter effect, it would, of course, be necessary to pay shipowners for the scrapping of vessels or otherwise to compensate them for keeping their vessels unemployed.

One possible reason for the inconsistency in government policies was, perhaps, to be found in the extent to which political and naval considerations entered into mercantile shipping arrangements. It seemed fairly clear that both the Japanese and the American subsidies were made with an eye to the possibility of securing a mercantile marine which could readily be converted into an auxiliary naval force in time of war. This connexion is quite explicit in the American Act of 1928, where it is stated that 'it is necessary for the national defence and for the proper growth of its foreign and domestic commerce that the United States shall have a merchant marine of the best equipped and most suitable types of vessels'. Round-table members alluded to the statement made by a United States representative at the London Monetary and Economic Conference in reply to the memorandum from the United Kingdom denouncing the use of subsidies. In concluding his statement, he made the following declaration:

'In enacting these laws (of 1920 and 1928) the Congress had in mind, in furtherance of the specific purposes which I have just mentioned, an equalization of the costs of constructing and operating American ships and such costs in respect to foreign ships, so that vessels in the United States can compete for both cargo and passengers on substantially equal terms with other maritime nations. In the earlier days of the Republic, its shipping flourished and then became decadent. I will not discuss the historical forces that have operated with such disastrous effects on American commerce when the nation has been at war or when it has been neutral and other nations have been belligerent. The United States intends to have a merchant marine. It desires conditions of parity for its vessels, and nothing more.'

The above reference to American commerce in time of war was paralleled by the remarks of an American member in replying to the comment that, at the very time when the Kellogg-Briand Pact renouncing the use of war as an instrument of national policy was signed, the United States passed its Mercantile Marine Act, definitely making indirect provisions for war. His rejoinder was that American opinion was not so much concerned with preparation for war as with preparation for neutrality

in view of the irritations and inconveniences which it had suffered at the time of the Allied control of shipping during the World War. To some extent, the Japanese Government was also actuated by a similar determination to be free from any dependence on foreign shipping in time of emergency.

In the American Act, however, there is a further factor which, according to an American Labour member, is often overlooked by foreign critics.

'America', he said, 'has passed immigration laws in order to protect workers by keeping out foreigners; but American seamen soon discovered that the shipping laws conferred no parallel protection on them. American ships of the Pacific, for example, habitually employed Chinese crews and even carried Chinese to San Francisco as passengers for trans-shipment as sailors in that port. The Supreme Court, when its opinion was asked, held that neither the ordinary immigration laws nor the Exclusion Act of 1924 protected the seaman. Consequently, the organized Labour interests of the country combined from that time and brought what influence they could on Congress in favour of legislation to protect American seamen. It was for this reason that the American Federation of Labour supported the shipowners in campaigning for the 1928 Mercantile Marine Act. As a result, American ships, in order to take advantage of the subsidy benefits, are obliged to recruit at least two-thirds of their crew from American citizens and to pay wages considerably higher than those prevailing in other countries. As to how much of the subsidy was thus passed on in the form of increased wages to workers and how much of it went into the pockets of the owners, I cannot say. But it is important to remember the close connexion between the Labour interests and the whole Subsidy Act, for without the support of the Labour interests it is very doubtful whether the Act would have been passed.'

Concrete examples of friction arising out of subsidies were brought forward on several occasions. It was shown that considerable resentment had been aroused in Australia and New Zealand by the introduction of new fast American ships, the competing of the Matson Line with the older established Canadian-Australian Line. It was felt that, inasmuch as the new American ships not only received extravagant subsidies for carrying mail but were also constructed because of American Government loans at absurdly low rates of interest, the resulting competition was patently unfair. The ill feeling in this case was intensified by the operation of the American laws regarding coastal navigation, in consequence of which New Zealand and Australian shipping was barred from direct trade between American-Pacific ports and places as far away as Honolulu and American Samoa. The feeling at one time had grown so strong that there was considerable agitation in favour of a declaration prohibiting American ships from the inter-Dominion trade,

as a gesture of retaliation. As to French subsidies in the Far Eastern trade, it was stated by a French member that these were not given primarily with the intention of ousting competition, but simply in order to secure adequate communications between Indo-China and the mother country. Ordinary steamship routes to the Far East did not call at the ports of Indo-China, and it was therefore necessary to pay a subsidy in order to secure a regular service.

A Japanese member remarked on the fact that there seemed to be an exaggerated tendency on the part of other nations to see sinister motives in Japan's policy of subsidies; but, in fact, necessarily a great part—actually 6,500,000 yen out of the total annual subsidies of 8,700,000 yen—was given to North American and South American lines for the carriage of mail and as a stimulus to passenger traffic. Japanese members disputed the contention made by some British colleagues to the effect that the Japanese Government policy was designed to assist Japanese exporters in competing unfairly against other nations.¹ They

¹ It should be noted, however, that the British data paper, *The Textile Industry in Lancashire, India, China and Japan*, p. 85, speaks of arrangements for the reduction of freight rates on Japanese cotton goods exported to certain markets. See also pp. 77 and 78 for details on special freight rebates on cotton and cotton goods in the India-Japan trade. A special agreement between the Japan Cotton Spinners' Association, representing the cotton spinning and manufacturing interests in Japan, and the Nippon Yusen Kaisha, representing the conference of steamship companies, arranged freight rebates for raw cotton from India to Japan. Under the terms of the agreement, the net freight per bale from Bombay to Japan was fixed at 2.78 yen, beginning December 1930, from Karachi at 5.27 yen, from Colombo at 2.49 yen. The rates before December 1930 are given below for comparison.

<i>Gross Freight</i>		<i>Net Freight to Japan Cotton Spinners' Association</i>	
Bombay	Yen 4.36		Yen 3.16
Karachi	„ 5.40		„ 3.80
Colombo	„ 4.06		„ 2.83

As a result of discussions between the Nippon Yusen Kaisha and the Asaka Shosen Kaisha and officials of the Japanese Ministries of Communications and Finance, a reduction of freight rates on cotton goods from Japan to Ceylon, India and China was arranged from the beginning of May 1930.

<i>Old Rate</i>		<i>New Rate</i>	
		(per freight ton)	
To Colombo,			
Calcutta, and			
Rangoon	Yen 14.30		Yen 13.50
To Shanghai	„ 8.00		„ 7.00
To Dairen	„ 7.30		„ 6.30

The freight income of the two companies was expected to drop more than 240,000 yen on account of this reduction, but it is understood that this amount would be made good by financial assistance which the Government would extend to the shipping companies.

In order to encourage the trade with British India and Ceylon, there is a special rate on freights for yarns, drills, shirtings and sheetings, twills, jeans and dhooties.

admitted, however, in reply to further questioning, that many of the ships on the South American and North American routes also carried cargo as well as passengers, so that it might perhaps be said that there was an indirect assistance to exports. They went on to quote from a statement printed in Japan in connexion with the recent agitation in Australia against the increase of Japanese imports into that country, consequent on the development of Japanese shipping:

‘Australian manufacturers, apparently following British industrialists, are prepared to criticize the subsidies given Japanese steamship companies. The subsidies for the Japan-Australia route amounts to some 20,000 yen yearly. I should like to raise the question whether the Australian manufacturers have considered the effort which our country is making to maintain this line, with the object of fostering friendly relations between Australia and Japan. It should be borne in mind that most steamers sailing from Japan to Australia are laden with very small quantities of export cargoes but return to this country fully loaded with Australian wheat, wool and other products. Which of the two countries is really benefited more by the Japanese Government subsidy?’

Great Britain, whose mercantile marine has long played the leading part in world trade and still comprises a greater tonnage than that of any other nation, is for that reason most seriously menaced by the growth of subsidized shipping in a world already oversupplied with ships. Round-table members referred on occasion to the discussion of this topic which had taken place at the Monetary and Economic Conference.¹ It was there made clear that, beside the United Kingdom, such countries as Holland, Norway, Sweden, Denmark, and Finland all officially protested against the use of subsidies, but that France and the United States favoured their use in special cases. The British Government, in its memorandum, concluded with the recommendation that, since subsidies for shipping are uneconomical and can only lead to further subsidies by other nations, resulting in general disorganization of sea transport, all governments ‘should move as rapidly as possible towards the diminution and ultimate abolition of State assistance to ship-building and ship operation on competitive routes’. The following quotation from the memorandum shows the maladjustment between the supply and the demand for world shipping.²

‘At the outbreak of war, in 1914, the gross tonnage of the world’s steam and motor shipping (omitting vessels of less than 100 tons but including

¹ *Report of the Bureau to the Conference* (Conf. M.E. 22), League of Nations, Geneva, 1933, pp. 34–40.

² See also ‘Shipping Subsidies as an International Problem’ in *International Affairs*, London, May–June 1933, where it is stated that ‘there is in the world to-day an unused surplus of 19 million gross tons of shipping. There is no work for one out of every three of the ocean-going steamships.’

vessels on the Great Lakes of the United States) amounted to 45·4 million tons. To-day (notwithstanding a decline of over 2 million tons in the past two years) the total still amounts to 66·6 million tons. The increase in foreign-going tonnage (ships of 2,000 tons gross and upwards) is probably at least as great. The volume of the world's trade which, in 1929, was about 30 per cent. above that of 1913, had declined in 1933 to below that level. Even if no account be taken of the increased efficiency through greater speed, &c., of many of the newer ships, the tonnage available is out of all proportion to the demand for it.'

Opinions of this sort were supported by several British members in the round table, one of whom characterized subsidies as a classic example of government action resulting in aggravated international competition.

'On the one hand,' he said, 'it is claimed that countries maintaining a high standard of living must be protected by subsidies in order to keep their seamen and shipbuilding industries employed. If the United States is to have the mercantile marine it wants, manned by American seamen, it cannot leave the question to be settled by general competition. On the other hand, nations like Japan, assuming that war is a possibility even if not desired, believe that they would be put at a great disadvantage if they had no mercantile marine, and must therefore give subsidies in order to keep their ships on the sea. The question for Great Britain is what to do about it. We do not want to give subsidies and have given them in the past only for the carriage of mails on a strictly commercial basis. But is the British Parliament to tell its ship-owners that they must be prepared to go under, since the Americans, the Japanese, and the French are giving subsidies which are not merely for the protection of standards of living and are thus able to undercut freight rates and take cargoes at almost any price? Or must they also give subsidies, as is being urged in some quarters now, and, together with the resulting addition to taxes, begin another trade war?'

The fact that ocean shipping is by its nature so international led several conference members to suggest that here was a clear case of a service which ought to be subject to international control. In spite of the present condition of anarchy and ruinous competition in the industry, and in spite of the failure of the London Conference to take any steps in the matter, it was felt by many that the present system of shipping conferences, however defective, and still more the extraordinary achievement of the Allied control of shipping during the War, showed that the idea was at least practicable.

CHAPTER III

INSTABILITY OF CURRENCY

INTRODUCTORY SURVEY

THERE WAS no provision in the Banff Conference programme for a general round table on problems of currency depreciation in the Pacific countries, but it became clear very early in the round-table discussions of economic conflict arising out of struggles for markets that depreciation of currency had been a powerful weapon, although in some cases a double-edged one, in aggravating international competition. Conversely, it was also seen that any schemes for economic recovery on an international scale, or even plans for regional agreements in foreign commerce by means of tariff treaties, would speedily be nullified unless at the same time steps were taken to stabilize currencies. The Programme Committee of the Conference, in recognition of requests made by a number of members, made arrangements for a special meeting of those interested in the more technical aspects of currency in the Pacific area. This round table met only twice and cannot, therefore, be said to have covered its subject at all thoroughly, nor to have gone intensively into examination of any one of the many currency problems in the Pacific area. Its main achievement was to secure from nationals of the various countries a series of summary statements on the outstanding difficulties which had had to be faced in the previous two years. With these statements as a background, it then devoted most of its time to a discussion of the prospects of currency stabilization in the United States and to the possible international repercussions of a drastic inflationary policy in that country.

For the information of the conference as a whole, the Programme Committee also arranged for an evening lecture by a British economist, giving a brief survey of currency problems in the Pacific. This address is reproduced below.¹

No elaborate description was needed to familiarize most members of the conference with the general course of events affecting currency in the Pacific area for the past two years. To many of the members present events were only too well known; and topics like depreciation, far from being a matter of mere academic interest, had manifested themselves in a very real manner by imposing serious difficulties on the members of the Japanese, Australian, and New Zealand Councils, who had to provide funds in their own depreciated currencies to meet expenses in a

¹ See p. 65.

country like Canada which, though technically not on the gold standard, still retained its currency at a relatively high level. It required, therefore, no more than the baldest introduction to recall what changes had taken place in currencies of the Pacific area since the 1931 Conference.

TABLE I
FOREIGN EXCHANGE RATES IN PACIFIC COUNTRIES
(Value in U.S.A. cents)

Year	Canada	Japan	China	British Malaya	Australia	New Zealand
Parity	100	49·8	Shanghai tael (silver)	56·8	486·7	486·7
1929 Average .	99·2	46·1	58·2	56·0	480·8	483·2
1930 " .	99·8	49·4	41·8	56·0	458·6	468·2
1931 " .	96·3	48·9	31·1	52·4	351·5	415·3
1932 " .	88·1	28·1	30·7	40·4	279·9	320·2
1931 Sept. .	96·2	49·3	30·7	53·6	..	..
Oct. .	89·1	49·3	31·8	45·1	..	..
Nov. .	89·0	49·3	34·1	43·1	..	..
Dec. .	82·7	43·5	32·8	39·0	..	..
1932 March .	89·5	32·2	32·8	41·3	..	..
June .	86·7	30·3	30·2	42·0	291·2	330·0
Sept. .	90·3	23·6	30·6	40·2	277·1	317·0
Dec. .	86·6	20·7	27·6	38·0	261·8	299·4
1933 Jan. .	87·5	20·7	28·0	39·0	268·4	291·8
Feb. .	83·5	20·8	28·4	39·6	273·2	274·3
March .	83·5	21·3	29·1	39·6	272·7	273·5
			Yuan dollar			
April .	84·7	22·1	22·2	41·2	284·8	285·5
May .	87·6	24·0	24·5	45·7	313·1	313·9
June .	89·9	25·8	26·1	48·0	329·9	330·1
July .	94·5	28·8	29·3	54·1	369·4	370·2
Aug. .	94·3	26·9	28·1	52·3	358·1	359·0
Sept. .	96·5	27·3	29·7	54·3	371·2	372·2
Oct. .	97·6	27·8	29·9	54·6	371·5	372·4
Nov. .	101·2	30·4	32·9	60·1	409·8	411·0
Dec. .	100·6	30·7	33·5	59·7	407·5	408·7
1934 Jan. .	99·5	30·1	34·0	58·9	402·4	403·5

Great Britain.

The outstanding event in the currency world at the time of the Shanghai Conference had been Great Britain's abandonment of the gold standard on September 18, 1931. In the next two years, the value of the pound sterling had followed an irregular course, varying between the fall of approximately 30 per cent., which took place soon after the country left the gold standard, to the extreme limit at the time of the War Debt payment in December, 1932, when the exchange rate on New York fell to \$3·12; thereafter the pound sterling maintained a fairly stable relationship to currencies of countries which still remained on the gold standard, with the exception of the United States, where con-

siderable fluctuations continued to occur, even before that country abandoned the gold standard, soon after the new administration came into power in March 1933. From the point of view of currency management, probably the most significant characteristic of this period was the establishment by the British Government of the Exchange Equalization Fund, provided with large funds which enabled it to operate secretly in the foreign exchange market in order to eliminate as far as possible all temporary fluctuations of the pound.

Australia and New Zealand.

The depreciation of sterling meant that the currencies of Australia and New Zealand declined *pari passu*, for both Dominions were practically though not legally tied to sterling. All their banks kept large balances in London; the bulk of their exports were destined for the British market; and nearly all their foreign loans were floated in the London capital market. It would thus have been an impossible task for either Dominion to retain its old relation to gold standard currencies. Neither country, of course, was on a gold standard in September 1931. In New Zealand the exchange had gradually fallen from the middle of 1930 to about 9 per cent. below sterling by February 1931. The principal banks, acting together, then held it at about that level until early in 1933, when persistent agitation from the farming community forced the Government to depreciate it further to about 20 per cent. At this point it was about at the level of the Australian pound. In Australia, where special internal financial difficulties were superimposed on the problems caused by the fall in export prices, the decline was more serious. The currency was about 5 per cent. below parity as far back as April 1930, and had fallen to 8 per cent. by the end of that year. It took a further plunge early in 1931 and remained for most of the year at 25 per cent. below. In December, however, there was a 5 per cent. recovery, and the exchange had since remained at about 20 per cent. below British currency, and therefore nearly 45 per cent. below gold-standard currencies.

Canada.

Though Canada's currency was popularly believed to be held closely to the level of the American dollar, her export trade was so linked up with British markets that the fall of the pound sterling was reflected in Canada, if not so directly as in Australia and New Zealand. The immediate effect was to lower the Canadian exchange against the American dollar by roughly 10 per cent. It sank a further 7 per cent. towards the end of the year, and thereafter until the first quarter of 1933 fluctuated between 10 and 16 per cent. below gold parity, wavering

on a course midway between the pound sterling and the United States dollar. With the depreciation of the latter, beginning in March 1933, the Canadian dollar began to fall again, reaching a discount of 25 per cent. in June. Meanwhile, however, the American dollar began to depreciate more rapidly than the Canadian, so that while there was no great change in the theoretical gold value of the Canadian dollar, there was a relative rise against the declining American unit. This new tendency persisted, so that by November 1933, Canadian currency was quoted at a premium of some 3 per cent. in New York, though it was still at a discount in London and of course still more so in Paris.

Japan.

For Japan, Great Britain's departure from the gold standard was an unhappy event for several reasons. It not only put her at an immediate disadvantage with her principal competitor in international trade, but it came soon after Japan's own successful effort, under the Hamaguchi Government, to pursue a campaign of financial economy and to restore Japan to a properly functioning gold standard by abolishing the embargo on gold exports. The lifting of the embargo would have been difficult enough even in a world of stable currencies, for Japan's international balance of payments was such that there was an immediate outflow of gold, an outflow which was steadily maintained over a considerable period, so that the country's specie reserves fell by the end of 1931 to a gold value of 234 million dollars, as compared with the previous figure of 424 millions in the preceding June. In a country whose gold reserves were so small to begin with, such an outflow could not be permitted to continue. The currency situation was used to good effect by the political factions opposed to the Minseito party; and, with its downfall, one of the earliest actions of the new Seiyukai Government was to restore the embargo on gold exports, although a number of shipments continued for some time to be made on behalf of the Government. The net result was that in terms of gold dollars Japan's reserves sank to 212 millions by the end of 1932. Meantime, with the resumption of the embargo, the external value of the yen in terms of gold currencies began to fall. It dropped almost immediately to a level with the pound sterling and, for the first three months of 1932, kept close to its theoretical parity with the pound. This meant that Japan had recovered her temporary advantage in foreign markets where she had to meet competition from British trade and British shipping. It also meant that the prospect for her export trade to such gold-standard countries as the United States was somewhat improved, though, conversely, the price that she had to pay for her imports of raw materials and foods from these

countries was increased. After the first three months of 1932, however, the yen was no longer able to maintain its position on a level with sterling, and from April 1932 there began a steady decline from 21 pence to 15 at the end of the year, and to 14 at the time the Banff Conference met. The exchange against gold currencies, such as the franc, declined even further, and because of the rise in the world price of silver which occurred simultaneously with the depreciation of the yen, there was a drastic change in the relation between the yen and Chinese currencies.

China.

China, by virtue of her silver standard currency, held an exceptional position in a world of depreciating and fluctuating currencies. Once regarded as veritable symbols of currency instability, the Shanghai tael and the Yuan dollar have since 1930 shown a record of steadiness that has only been equalled in the few remaining gold-standard countries. This, however, cannot be ascribed to any deliberate policy of the Chinese authorities, for, as is well known, foreign exchange in China varies almost automatically with the price of silver quoted in the London and New York markets. It is true that exchange operators in Shanghai, Bombay, Dairen, and Tokyo exert a considerable influence in both those markets,¹ so that one cannot say precisely how much of the exchange fluctuations, in Shanghai, for example, are the product of normal trade demands and how much the result of quite independent speculation in the Western world. Nevertheless, there is good evidence for believing that foreign exchange in China is dominated by world conditions in the silver market, rather than vice versa. For China, at any rate, the effect of her silver standard currency has been to isolate her somewhat from the effects of the world slump in trade.²

That isolation was due to the fact that the world value of silver as a commodity, while it fell during the early years of the depression, tended on the whole to raise the general level of prices within China, in strong contrast with the universal downward tendency in most other countries. Since the end of 1931, however, within the increased stability in world silver prices, this trend has been reversed. Wholesale prices, as measured by the Shanghai official index, fell steadily from 121·8 in December 1931, to 107·5 a year later, and to 104·6 in April 1933. Such a tendency would suggest that China is being drawn more and more into the currents of world economic prices. If, as is not unlikely, there should be a decided upward trend in world silver prices, either by special legislation aimed

¹ See Mitsutaro Araki, *The Financial System in Japan*, Japan Council, 1933, p. 38 *et seq.*

² For a fuller examination of this point see the report of the special round table on currency held during the 1931 Conference. *Problems of the Pacific, 1931*, Chapter VII.

at increasing the value of silver or because of a general improvement in commodity prices, China's price level would in all probability be depressed considerably further. The effects of such a price fall might well be to bring great hardship on some of the newly developed Chinese industries which have grown up under the chance protection of low silver prices.

In the meantime, other currency changes not connected with the price of silver have shown signs of working the same kind of hardship on Chinese domestic industry. Chief among these outside influences has been the fall in the exchange value of Japanese currency. A Chinese dollar in 1931 was equivalent to about a quarter of an American dollar and half a gold yen. By November 1933, the yen had fallen so much in value that it was quoted at 31 cents American currency, while the Chinese unit was up to 34 cents. Similarly, on the London exchange the yen was at only 15*d.* while the Shanghai dollar was at 17*d.*

Such a drastic change opened the way to a huge inflow of Japanese goods into the Chinese market, and certainly exposed a number of small new Chinese industries to a competition that may quite conceivably ruin them if anti-Japanese sentiment should greatly decline.

A second outside factor which may affect the world price of silver and thus the Chinese exchange is the international agreement on silver which followed the London Economic Conference. The agreement (which in the autumn of 1933 was not yet ratified by all the signatories) included the producing countries Canada, the United States, Mexico, Peru, and Australia, and countries holding large silver stocks, Spain, China, and India. On the one hand, the producing states agreed for a four-year period to withdraw (by purchase or otherwise) 35 million ounces annually from the world market, the United States and Mexico taking about 90 per cent. of the amount. In return, the Indian authorities undertook not to sell more than 140 million ounces during the four years, Spain not to sell more than 20 million ounces, and China not to sell any silver derived from demonetized coins.

Closely allied to this plan is the provision in the Agricultural Adjustment Act in the United States by which the Government may accept silver (at a value of 50 cents per ounce) from foreign governments in payment of war debts. The British Government, by taking advantage of this scheme in June 1933, made a token payment of 10 million dollars at a considerable saving.

At the time of the conference and for some months afterwards, it was not possible to see whether the combined effect of the international agreement and the American debt-repayment provisions would be to bring about a pronounced rise in silver prices. Up to December 21 it had not done so. London silver prices showed little change, and the rise in

New York prices seemed to be entirely a reflection of the dollar's depreciation. Thereafter, of course, the price of new American silver was artificially raised and fixed at 64½ cents per ounce under the silver purchase plan,¹ but the market price in New York rose only to about 40 cents.

United States.

Turning next to the currency problems of the United States, one is confronted with a veritable revolution whose outcome at the time of the conference was unpredictable. Up to the time of the banking crisis and the beginning of President Roosevelt's Administration, that country stood in the eyes of the world as the symbol of the gold standard and stable currency. To world opinion at large it must have seemed the crowning absurdity in a mad world that the nation richest in real wealth, only to a trifling extent dependent on foreign trade or foreign investment, and withal holding the world's largest gold reserves, should abandon the gold standard and deliberately embark on a policy of exchange depreciation.

The chief events in that programme are too well known to call for description. After the temporary restriction on gold exports during the March bank crisis, there came the definite embargo on all gold exports (April 20), marking the abandonment of the gold standard. This was followed by the abrogation, on May 1, of the 'gold clause' which had been a characteristic of nearly all securities floated in the United States.

The departure from the gold standard had at first only a moderate effect on the exchanges, for there was nothing in the American international balance of payments that would cause an immediate fall in the exchange value of the currency, as was the case in Great Britain in 1931. The immediate fall in the exchange against the franc was negligible, and even by June the dollar was still quoted at about 21 francs—a discount of only 16 per cent. Public opinion remained uncertain, however, as to the further plans of the President regarding internal inflation, and the flight of American capital, restricted as it was by law, had not assumed large proportions.

The next event which hastened the dollar's decline was President Roosevelt's message to the London Conference on July 3, refusing to accept the proposal for immediate exchange stabilization. By thus signaling his intention to concentrate on internal recovery through the machinery of the National Recovery Act, the Public Works Administration, and the Agricultural Adjustment Act, he confirmed the fears of those who looked for signs of a considerable inflation of currency. The outward flow of American capital to London and Paris began to

¹ See below, p. 63.

increase, for in spite of legal restrictions it was still possible to export capital indirectly by the purchase of foreign securities and by leaving the proceeds of American exports on deposit in foreign banks. With the ensuing demand on the exchanges for francs and sterling, the dollar continued its decline.

But the fall in the external value of the dollar was not paralleled by an equivalent rise in internal prices which it was the aim of the administration to effect. It is difficult to see how, in fact, this end could have been achieved by exchange depreciation, since foreign trade is only a small part of America's total trade. Depreciation, however, had a useful incidental effect in that it acted as a protective barrier against imports into the country and thus avoided to some extent the necessity of imposing new tariffs in order to protect industries burdened by higher costs under the N.R.A. codes. There was a further advantage in the policy. Short of actually issuing a flood of greenbacks, it was probably as effective a psychological weapon of inflation, tending to hasten consumer's buying, as any other method.

It appeared to be insufficient, none the less. The delay in putting the public works programme into operation, the length of time it would take to raise working-class purchasing power to a level at which it would start to stimulate manufacture and ultimately to revive the production of capital goods, where the depression lay heaviest—both these points were used to strengthen the argument that outright currency inflation was essential. To these difficulties was added the problem of placating an insurgent farm population clamouring for more drastic steps to raise agricultural prices. Whether because of these factors or for other reasons, the President announced on October 22, 1933, the first stage of the gold-purchase plan whereby the Government undertook to buy domestic gold at varying prices. In practice the price set was above the world price. Within a week it became evident that the scheme would be ineffective if limited to gold produced in the United States, and the Government therefore extended its purchases into the foreign markets. As a result, the world price of gold rose, but the dollar slumped further, so that the Washington price remained for a time below the world price in spite of several increases by the authorities.

Nearer the end of the year, the Administration appeared to have relaxed its earlier efforts at pushing up gold prices, and the greater stability in the exchanges which ensued suggested that financial opinion, if not pacified, was at least less apprehensive of inflation on a grand scale. Similarly, the silver purchase scheme announced on December 21, though in appearance a step towards inflation, was made so insignificant in its real effects on prices (by being limited to newly mined silver) that

informed opinion regarded it as a gesture chiefly benefiting a few silver producers, and an indication that the President had no intention of direct large-scale inflation by this method. Under the President's executive order at least 24,412,410 ounces of silver produced in the United States was to be purchased annually. The silver was to be paid for at the statutory price of \$1.29 per ounce, but half the output was to be surrendered to the Government for seigniorage and other charges, so that the effective net return to the sellers would be 64½ cents per ounce. The scheme, which extends to December 31, 1937, may be regarded as a major step in implementing the international silver agreement of the World Conference, but not as a significant factor in raising general prices.

A more conclusive indication of a desire for currency stabilization on the part of the Government appeared in the President's proclamation of January 31, 1934. The dollar was devalued to a weight of 15 $\frac{5}{16}$ grains, i.e. to 59.06 per cent. of its old value; the price of gold was fixed at a corresponding level, \$35 per ounce; the Government acquired title to all the gold held by the Federal Reserve banks, and with it the 'profit' arising from the devaluation; this profit, estimated at about \$2,793 millions, was to be used chiefly as an exchange stabilization fund in

TABLE II
DOLLAR AND STERLING AND SILVER EXCHANGE

Parity	Sterling		Dollar	Price of Silver	
	<i>In New York</i>	<i>In Paris</i>	<i>In Paris</i>	<i>In London</i>	<i>In New York</i>
	486.7 cents	124.2 francs	25.52 francs	pence per standard oz.	cents per oz. 0.999 fine
1929 Average .	485.7	124.0	25.53	24.46	53.3
1930 " .	486.2	123.9	25.46	17.67	38.5
1931 " .	453.5	115.6	25.51	14.60	29.0
1932 " .	350.4	89.2	25.46	17.84	28.3
1932 March .	362.9	92.0	25.43	18.34	30.5
June .	364.9	92.7	25.40	16.84	27.8
Sept. .	347.2	88.6	25.52	18.0	28.2
Dec. .	327.6	84.0	25.62	17.1	25.4
1933 Jan. .	336.0	86.1	25.62	16.9	25.7
Feb. .	342.2	87.3	25.49	16.9	25.2
March .	343.3	87.5	25.40	17.6	28.1
April .	358.6	87.3	24.38	18.4	31.1
May .	393.8	85.5	21.71	19.0	34.4
June .	414.2	86.1	20.76	19.1	36.3
July .	464.4	85.2	18.30	18.3	38.4
Aug. .	450.5	83.9	18.64	17.9	36.3
Sept. .	466.1	80.4	17.22	18.3	38.8
Oct. .	466.7	80.2	17.13	18.2	38.4
Nov. .	513.7	82.2	15.97	18.4	43.1
Dec. .	511.9	83.6	16.31	18.7	43.6
1934 Jan. .	505.9	81.3	16.06	19.4	44.4
Feb. .	503.8	77.8	15.45	20.1	45.5

order to keep the dollar as nearly as possible at an exchange parity corresponding to its new value. The stabilization was not final, since the President still reserved the right to vary the value of the dollar between 50 and 60 per cent. of its former parity. Public opinion, nevertheless, regarded stabilization as achieved, and there was an immediate spectacular inflow of gold to the United States from European countries and India.

Other Regions.

To complete this brief survey of currencies in the Pacific, it is necessary to mention several other regions. In two Pacific countries only, the gold standard was still unimpaired at the time of the Banff Conference; for the Netherlands East Indies and French Indo-China had currencies tied to the unit of the mother countries. The Philippines was linked by a gold-exchange standard to the United States dollar, and the peso thus fell with the dollar. The currencies of British Malaya and Siam followed the course of the pound sterling. The currency of the Soviet Union is in a rather different category, for it did not enter to any great extent into the exchanges or the foreign trade of Pacific countries, and, though its external foreign trade currency remained on a gold basis, its internal currency fluctuated independently of changes in other countries.

AN ANALYSIS AND AN INTERPRETATION¹

Three Groups of Countries with Distinct Currency Standards.

Perhaps the best approach to this subject is to discuss what the position in the Pacific area was in the year 1929, at the very moment when the world depression began with a crash in Wall Street. I shall divide up the currency systems of the Pacific area at that time into three main groups, each of them distinguished by their special characteristics. I have not time to go into the fascinating history of how these three groups which I am going to discuss and describe came into existence. In many respects, the problems of Indian currency and the problems of American and Canadian currency are of very great interest to historians of monetary theory and practice, but I am going to leave all that on one side and am merely going to ask what was the position in the Pacific area at the time when the depression began.

Now, to begin with, there was one group of countries which I will call the dependent areas of the Pacific. It included the Empire of India, Indo-China, the Philippines, the Dutch East Indies, and various other areas like the Malay States, the characteristic feature of the monetary systems of which was that, although this group was on the gold standard, the technical form that its monetary arrangements and banking system took was really depen-

¹ An address given on August 16, 1933, by Professor T. E. Gregory, a member of the British Group.

dent upon the organization of the currency standard and of the banking system in some greater colonial power.

In the Empire of India's finances, for instance, the currency system has now for some hundred years been related to the currency system and banking arrangements of the City of London; and ever since the Spanish-American War the currency system of the Philippines has been intimately associated with the United States. Here you have one group of countries of very great importance. You will remember that the Indian Empire has 300 million people—a country nominally on the gold standard in a very special and peculiar way.

The second group of countries in the Pacific area are the countries with independent currency standards. They were on the gold standard in 1929, but a peculiar fact of this second group was that their association with gold was direct instead of being indirect as in the case of the first group. These countries included the British Dominions and dependencies in the Southern Pacific, Australia, and New Zealand. It included also the Japanese Empire and the two great countries of the North American continent, Canada and the United States. This group, therefore, is of equal importance, if not of very much greater importance than the first one.

Lastly, in the Pacific in 1929 there was one very important area, and various subsidiary areas, the currency systems of which were distinguished by the fact that, although these currencies were independent of external control, nevertheless they were not based on gold. China and the British dependency of Hong Kong were based on silver and not on gold.

That was the position in October and November 1929. What is the position to-day? First, the fact which we have to carry clearly in our minds is this—with the exception of three of the states mentioned, not one of them possesses the particular kind of currency system which it possessed four years ago. Over the greater part of this vast area, covered by the majority of the world's population, there has been a dramatic and striking change in the nature of their currency systems. China is still on the silver standard, and so is Hong Kong; but of the remaining countries of the Pacific area only two exist whose currency system is still as it was four years ago. These are Indo-China and the Dutch East Indies. Owing to the fact that these are dependencies of European powers who are the backbone of the gold bloc in Europe, Indo-China and the Dutch East Indies are on the gold standard, and how long they will remain on the gold standard depends on how long Holland and France are themselves in a position to maintain the gold standard, a problem made more acute largely by the United States going off the gold standard three months ago.

The Interrelation of National Financial Problems.

Before I begin to discuss the consequence of this existing situation, or even the causes of this situation, there are two preliminary observations which I want to make. It is possible, I suppose, from the geographical or from the diplomatic or political standpoints, to think of the Pacific area in terms of its geography and political problems. From the economic standpoint it is not

possible to do any such thing, and it is not possible to discuss the monetary problems of the Pacific area as if the Pacific were isolated from the rest of the world. Economic theory applies to the problems of the Pacific area, and its problems are identical with those of other countries of the world. Quite apart from that, what happens in the Pacific affects other portions of the earth's surface and their currency standards.

Let me take one illustration of this. There is a simple economical and financial relation between the Pacific and areas which seem to have nothing to do with the Pacific at all. One of the major problems of Australia is the Scandinavian currency problem. If Denmark or Scandinavia lower the value of the crown this affects the value of the Australian pound in the English money market. Similarly, if New Zealand or Australia drop their exchange by 10 or 20 per cent. they are in a position to put Scandinavia out of business. Consequently, the problems of the Pacific, as far as monetary problems are concerned, are intimately associated with the present economic distress in every quarter of the globe.

The Breakdown of Gold Standards.

What are the causes of the breakdown of the gold standard over a large part of the Pacific area? In answering that question, I should like to stress two particular aspects of the situation. The first is familiar, at any rate to the Canadian members of this present gathering. It is this: all periods of depression notoriously thrust upon agricultural states a burden which they find it very difficult to bear, and that for two main reasons.

We now know that when we have a depression of trade the prices of agricultural and primary materials fall more rapidly than the prices of manufactured products. In consequence, the greater the proportion of the national income in any particular country which is derived from agricultural products, the greater the fall in the national income of that country will be. Egypt, Australasia, or certain portions of China, or the western portions of the United States, or of Canada, are areas which are still predominantly agricultural. One has to recognize that this very fact puts the Pacific area in a difficult position whenever there is a depression of trade. The difficulty is that the majority of the world's agricultural states are also the majority of the world's largest borrowing markets. If one looks at the bond issues floated in the money markets one cannot help being struck by the fact that the most consistent borrowers in London are New Zealand, Australia, and India, and the most consistent borrowers on bonds in the United States are the Argentine, Brazil, China, and so on, with the result that agricultural states are faced with serious problems with every recurrent period of depression. They are faced with two problems. First, national income falls at a time when their obligations on account of previous borrowings are likely to be greater because these borrowings have taken place in a previous period. Second, there is a special burden resting upon agricultural states. Periods of rising prices of agricultural and raw material products are also periods of rising land values. There is a mischievous tendency for agricultural states to borrow in the

money markets of the world and for the local farming communities to indulge in the game of speculation on land values and to borrow from the banks, with the result that when depression comes agricultural states are faced with the twofold problem of repaying their debts to local banks at home and meeting their debts abroad. These two burdens are quite sufficient to break the backbone of even the most patient farmer.

Why is it that the Pacific as a whole has gone off the gold standard? The answer, I think, is clear. It lies in the characteristic features of agricultural units in a period of depression, and it is no mere matter of chance that the first great raw-material producing country in the British Empire to go off the gold standard because of the depression was the Commonwealth of Australia. The Pacific area is primarily one producing raw material and food-stuffs; but there is one great exception. That exception is the Japanese Empire. There one has to add to the burdens of an agricultural unit of the general kind an economic problem which arises because of the world depression, whether you are thinking of an agricultural country or an industrial country.

The fundamental fact which characterizes every depression in every country at all times is simply this—that the level of prices tends to fall faster than the level of costs. Our modern industrial states are all characterized by one uniform feature, namely, that in spite of the capitalistic system it is in fact exceedingly difficult, at a time when prices fall, to decrease the costs of production as rapidly as the price level is decreasing. Wages are more or less fixed in Eastern countries, not because of agitators, but because of tradition or custom; and in the Western states of the world because of a strongly organized labour movement. Labour costs are rigid as compared with capital costs. But even if one is not thinking of labour costs, which are relatively unimportant in some cases, it is not easy at the outset of the depression to reduce bondholders' interest and bank charges.

In every industrial area there is a disparity between the rate at which costs are falling and the more rapid rate at which prices are falling. Therefore, statesmen of every nation are face to face with the problem of getting the price level up to costs or the level of costs down to prices. It so happens that it is much easier to get the price level up by a certain device than to get the cost level down. A special device by which you can get the price level up without destroying your markets is that of going off the gold standard and allowing the rate of exchange to fall. This possibility was known before the black days of 1929, though it was not made use of.

To take a particular neutral case, allow me to take that of Great Britain. We were faced for the last six years by the problem of disparity between the level of our selling prices, especially in foreign countries, and the level of our costs. Now, it is not true to say that in 1929 we deliberately abandoned the gold standard because of prevailing cost conditions or because we thought we would acquire, as we did, certain advantages by doing so. Once off the gold standard, however, you have the fear of currency falling further which drives it down immediately for well-known reasons. If you lower the dollar value

of sterling from \$4.86 to \$3.50 that means that every English manufacturer's selling price, as compared with what it was before, increases by one-third, and to that extent, so long as production costs have not risen in proportion, increases his competitive efficiency. That explains why a country like Japan went off the gold standard. I am not going to say that Japan deliberately went off the gold standard. There was a flight from the yen just as there was a flight from the pound, but it goes without saying that when two great industrial states have been driven off the gold standard this encourages others to do the same thing.

What have been the consequences of the countries in the Pacific area having been driven off the gold standard? Technically, the direct effect of a country departing from the gold standard means driving the gold value of that currency down; and a fall in the currency acts, so far as exports are concerned, like a government subsidy and like an additional tariff. It is as if the British Government put an import duty of 10 per cent. on all imports into the country and gave the subsidy of 10 per cent. to all manufacturers who are selling in foreign ports. If any country goes off the gold standard its currency is driven down very rapidly and gives it an advantage over its competitors for the time being.

What are the ultimate consequences? The ultimate consequences are not so pleasant to contemplate. In the first place, countries like Great Britain and Japan are dependent to a considerable extent upon imports and raw materials for the manufacture of finished goods. When exchange falls the cost of raw materials goes up. In countries in which the population lives on imported food the next thing which goes up is the cost of living. How far will strongly organized labour movements allow the cost to go up without kicking very hard against the prices and insisting upon a rise in wages?

If one country snatches a competitive advantage at the expense of the rest, the rest won't bear it very long without imitating this example. The following sequence of events is that one country after another goes off as the pressure on them becomes almost irresistible. Alternatively, the countries which resist temptation try to protect themselves by a new and special series of devices. They put on anti-dumping duties, as Canada has done, and impose quotas. Anti-dumping duties, the quota, and other methods of decreasing the amount of imports are imposed until international trade is strangled.

The result is very difficult for economic experts to decide, i.e. whether any single country has gained in the long run as a consequence of departing from the gold standard. My own opinion is that they have been engaged in a very unpleasant task. Each hoped to be fortunate enough to gain from the exchange going higher. All they have really succeeded in doing is to lower the level of agricultural prices on the great markets of the world by forcing exchange down.

Consequences of the American Policies.

That is the sequence of events which leads to the present position. What are you going to do about it? The solution of the currency problems of the Pacific

in the course of the next twelve months will turn, not exclusively but very largely, upon what the United States proposes to do with the American dollar.

In my opinion it will be impossible to implement the new National Recovery Act in the long run unless the American dollar is allowed to fall. Let us assume it will be necessary for the United States in the course of the next twelve months to reduce the value of the dollar in terms of gold and in terms of other currencies. The American administration has ample powers to effect this particular purpose. It has a large number of devices by which the dollar can be driven down. The United States Government has the right, to begin with, to print three billions of greenbacks and to demand that the Federal Reserve buy three billion dollars of securities, and further to expend a very considerable sum of money on public works. The President of the United States lastly has it in his absolute power to devalue or reduce the gold content of the dollar by 50 per cent. In order to make the National Recovery Act work in the long run it will be necessary to use these powers.

What are the consequences of depressing the dollar? What is the likely chain of causation? If the dollar falls very heavily, we are almost certain in Great Britain to witness a new agitation to lower the value of the pound sterling. We are supposed to be very insular, but a fall in the value of the dollar will set in operation economic forces that will lower the value of the British pound. Supposing the British pound falls because the dollar falls, what will happen? The next thing will be that Japan will follow our example. At the present time there is going on a fight for the control of the world's textile markets between Bombay, Japan, and Lancashire. As a consequence of the depression of the pound, Japan will follow our example; in fact, it is a matter of life and death to both that it should. The effect will depend upon the action taken by the American Government. If the dollar goes on falling and the pound falls and the yen falls, we are likely to witness enormous pressure on the remaining gold bloc, that is, upon France and Holland; and if France and Holland are driven off the gold standard, then Indo-China and the Dutch East Indies will follow, linked as they are by political associations with these two countries.

What is the further consequence of all this? Accentuation of the competition in all these Eastern products with which we are traditionally associated, between the Dutch East Indies and Malaya, an intensified new era of international competition, and the depreciation of exchanges is likely to go on. If Britain is forced through American action to lower the rate of exchange, it will also affect the Scandinavian and Australasian exchanges, because the lowering of the pound will mean that one group or the other would be knocked out of the butter market, dairy market, and fruit market unless it followed sterling down. Consequently, everything, as far as the Pacific area is concerned, turns on the pound and on the dollar. If the dollar improves the consequences which I have outlined will probably not take place; but if the dollar depreciates the result seems to me absolutely inevitable.

There are two further consequences. The first is the position of India and the second that of China.

We are engaged in Great Britain in the vast experiment of trying to work out for the Indian Empire a self-governing Constitution. One thing is certain: that the powers that will have to be conferred on the new Indian legislature will include power to manage their own currency. It has been a great grievance to India that the rupee has been linked with the pound and has fallen and risen with the pound. The world's currency problems have not yet been solved. When self-government is bestowed on India, the Indian legislature will probably first use its hardly-won powers to break with the pound and set up a new area of competitive exchange to benefit Bombay as against Japan and Great Britain.

I have not said anything upon the enormous problems which overhang the Chinese Republic. Many years ago Ricardo said that the silver coinage was nothing except a note printed on silver. The easiest way is to think of silver as a paper currency. How has the Chinese silver behaved in the course of the last few years? China has gained rather than lost through the fall in the world value of silver since the beginning of the depression. The fall of currency acts as a check on imports and a subsidy on exports; and the falling value of silver has been the stimulus which that fall has given to the growth and expansion of industry, especially in the area around Shanghai. China has had to pay a price. China has not been able, any more than any one else, to find a way out of the world depression; nevertheless there are mitigating circumstances in China which are not necessarily present in the countries of the United Kingdom. There are really two problems which China has to think of—first, whether it is possible to do anything which will stabilize or raise the world value of silver, and whether it is desirable to do so; and second, how far it is possible to unify the internal currency and to pave the way for a modern system of banking.

The Need for a New Conference.

The misfortune of the World Economic Conference was that it tried to discuss everything in general without discussing anything in particular. I want to see a World Economic Conference called for the purpose of discussing one thing, namely the methods by which problems of the Pacific, so far as currency matters are concerned, can be solved at the same time as currency problems of the world in general are solved. It will not be necessary to summon sixty-six nations (sixty-five of which attended). Call together those three or four great Powers whose decisions on currency or financial matters swing the rest of the world with them. If we can get agreements between Great Britain, the United States, Japan, and France on the future currency of the world, we shall have solved what is the main obstacle to recovery.

I am in favour of a general return to a stable currency because I believe the chaotic condition we are in at the present time is a nuisance which cannot be borne; but returning to the gold standard does not mean the old relation between gold and dollars, or gold and the yen, in other words the relationship which obtained in 1929.

Stable money is a pillar of the economic system; without stabilization of

currency no country will stabilize its tariffs. Not for the first time in history, currency problems and tariffs have been inextricably mixed. There is no possibility of stabilizing tariffs to-day until currencies have first been stabilized. A certain degree of currency change may make protection absolutely meaningless, with the result that tariffs will have to be raised again. Consequently, currency problems and tariff problems are mixed up intricately in the modern world.

These are the only things about which governments are competent to legislate in the present world depression; and therefore I hope there will be a more modest gathering in the next six months to pacify not only the Pacific but the whole world.

CURRENCY AND FOREIGN TRADE

New Zealand and Australia.

The round table, whose discussions primarily will be followed in the following pages, began with a review of the currency situation in the countries whose nationals were present, particularly in relation to their trade. The members listened, first, to an authoritative survey of the situation in Australia and New Zealand by a member of the latter country who had been directly connected with the Government's policy in fixing the exchange. The situation there had been that the New Zealand currency, since the beginning of 1930, was depreciated in terms of sterling about 9 per cent. (or, to use the commoner method of quotation, that sterling was quoted at a premium of 10 per cent. in New Zealand). This figure was adhered to by the banks of the country working together by mutual agreement and seemed to correspond fairly closely to the equilibrium rate. In the neighbouring Dominion, Australia, however, the currency had for two years or more been depreciated from 20 per cent. to 25 per cent., so that sterling was quoted at a premium of 25 per cent. in relation to the Australian pound. The greater degree of depreciation in Australia was due partly to the situation in the international balance of payments between the Dominion and Great Britain and partly also to the deliberate policy of the Government, which was using the weapon of exchange depreciation as an additional means of restricting imports in the course of its general programme of financial rehabilitation.

Inasmuch as New Zealand and Australia were competitors on the London market in certain commodities, there developed an agitation in the latter country for reducing the New Zealand pound to the level of the Australian, in order to put New Zealand exporters on an equal competitive footing with Australian traders. Naturally, the bulk of the support for such a proposal as this came from the farming community whose products were exported mainly to Great Britain. A further

depreciation of the New Zealand pound by 15 points would, as they thought, automatically increase the prices they received for their products by the same ratio. On the other hand, it was clear that importing merchants and the consumers of imported manufactured goods generally would be penalized by the measure and would have to pay increased prices for their goods. Still more important from the point of view of the Government was the fact that the proposal, if accepted, would automatically increase the amount which it would have to pay for interest on loans raised in Great Britain. An added burden of this sort at a time when tax revenue was declining made the prospects of securing a balanced budget exceedingly gloomy. This consideration seemed to be the deciding one in the minds of the authorities, and up to the time of the Ottawa Conference and for some months afterwards the exchange was held at its old level of 10 per cent. premium. The agitation in favour of depreciating, however, gained added support from the fact that certain of the Australian banks which had branches in New Zealand were known to favour it; and in January 1933 the political pressure from the farming sections became so strong that the Government finally decided to acquiesce. The exchange was artificially pegged at 25 per cent. premium, and the Government was faced with the problem of having to raise additional funds to meet its interest charges, and with the further prospect of diminishing revenues from import duties and from income-tax. In the opinion of the Minister of Finance, who resigned because of the decision, it involved an added burden of nearly four million pounds on the budget in which there was already a prospective deficit of six millions. To the argument of those economists who supported the measure, namely that the losses on the budget would ultimately be compensated by increasing the incomes of the farmers and thus bringing them back into the tax-paying class, his answer was that the discrepancy between the farmer's costs and his receipts was known to be about 40 per cent., and that, inasmuch as the advantage to be gained from the depreciation in raising the farmer's receipts was only likely to be about 15 per cent., there was no hope of any real relief on the budget. The result of the action had been in reality to transfer part of the country's real income to the farming community, whose products were exported, at the expense of the consuming public generally. Moreover, even a good deal of the gain to the farmer was offset because of the added cost which the exchange depreciation imposed on all imported goods which he was obliged to buy.

Still more serious were the international effects of this measure, which illustrate how dangerous a double-edged weapon currency depreciation may be. Almost immediately after the exchange fell, Denmark, one of

New Zealand's principal competitors in the London market for dairy products, depreciated its currency by a similar ratio. The French Government retaliated by imposing additional duties on New Zealand exports to France; and negotiations had to be entered into with the Canadian Government to avoid the imposition of an anti-dumping duty on imports of New Zealand butter into that Dominion. It was stated in some quarters that this action of the New Zealand Government was a direct breach of the spirit of the Ottawa Agreements even if not a legal violation, since a depreciation of this sort worked just as effectively as a 15 per cent. increase in the import tariff.

Further complications arose in disputes over the question whether payments of interest or principal on New Zealand local government securities (payable in London) should be made in sterling or in the now depreciated New Zealand currency. The New Zealand Auditor-General had ruled that under the existing law it was necessary to pay in New Zealand currency. The immediate result was the protest from bondholders in London. To avoid the risk of the dispute growing to such a stage that it would involve the credit of the New Zealand Government, arrangements were finally made to have payments made in sterling.

In the long run, it was exceedingly difficult, in this speaker's opinion, to see how there could be any net benefit arising out of this step. The farming community now had a vested interest in the maintenance of the exchange at this depreciated level and might even renew its agitation for further depreciation. Any efforts on the part of the Government to restore the currency to its old parity would involve temporary reduction in export prices, and, therefore, in farmers' incomes; and would be sure to meet with implacable opposition.

Canada.

In Canada also the currency situation was seen to be closely linked with problems of foreign trade. The position of its currency was complicated by its double relationship to sterling on the one hand and to the American dollar on the other. The Canadian dollar had depreciated slightly as against American currency and, at the time of the conference, was at a discount of about 5 per cent. But before the United States had left the gold standard the discount had been considerably greater, although not so great as the depreciation of the pound sterling against the dollar. Canadian currency had thus kept on a level intermediate between sterling and the United States dollar; and it was difficult to judge precisely how that particular relationship was fixed, or whether there was in fact any definite currency policy being put into effect by

the Canadian Government. Any currency policy in Canada is complicated by the fact that the greater bulk of her wheat exports is destined for countries outside North America, mainly in Europe, while a large part of her imports comes from her southern neighbour. Therefore, while in theory a depreciation of the exchange ought to benefit the Western grain grower and exporter and also give the Eastern and Canadian manufacturer an additional tariff protection against American imports, on the other side there is the fact that a great part of Canada's industrial development has been financed by borrowings in the New York capital market. As long as the United States remained on the gold standard, any large depreciation of Canada's currency would have added greatly to the cost of paying interest and amortization charges on this borrowed capital. After the United States left the gold standard, however, and after it had ruled that the 'gold clause' in American bond issues would not be enforced, making it possible for repayment to be made in paper dollars, this consideration was no longer of such importance.

After the deliberations of the Ottawa Conference, and also in view of the fact that the financial depression in the United States had practically closed the New York market for the time being even to reputable borrowers, including Canada, it was considered not unlikely that the Canadian Government and Canadian utilities would tend to turn to the London capital market for further borrowings. It was stated that the recent issue of 15 million pounds sterling had been officially described as a great success. If that tendency developed, it might also give support to a policy of linking the Canadian dollar more closely to the pound sterling. In the meantime, one of the immediate effects of the depreciation of Canadian currency had been, as was also the case in Australia and New Zealand, to bring a temporary spurt of prosperity to the gold-mining industry.

Great Britain.

The relation between currency stability and export trade came out most sharply in the case of Great Britain. According to remarks made by the British members present, the interest of the London money market in currency problems of the Pacific was confined almost wholly to watching the policy of the United States Government. There were numerous reasons for this concern. English public opinion had undergone a considerable change in the past two years. Now that it was possible to look back and examine the net effects of Great Britain's departure from the gold standard, the influence of the inflationist group in England had altered. In the first place, the competitive exchange depreciation which had run riot almost throughout the world since

September 1931 had had a very sobering effect on those who had expected an immediate and lasting benefit to British exports to arise from the depreciation. They had confidently expected that the internal price level would rise by a considerable proportion, and that automatically British trade would benefit from it. These anticipations had, on the whole, proved false. The temporary rise in prices had not exceeded 10 per cent. and, although there was a brief revival in some of the exporting industries, it did not last more than a few months after the pound depreciated. Since that time, prices generally in the United Kingdom had remained fairly steady, and the general effect of the depreciation seemed rather to have been to pull down the world prices of the staple commodities entering into international trade. It was partly because of this experience and because the course of events in Japan from a similar depreciation had apparently run along parallel lines that a good deal of British financial opinion was sceptical about the prospects of the American exchange policy really achieving the effect it was supposed to, of raising United States prices.

With the establishment of the Exchange Equalization Fund in Great Britain, it had been possible to bring about a *de facto* stabilization of the pound in relation to the franc at a level of roughly 82 to 84 francs. There had been some departure from this level: first, at the time of the War Debt payment in December 1932, when the pound slumped badly, and again when the United States abandoned the gold standard. But by and large it could be said that the pound sterling had been fairly closely pegged to a gold standard. There was a widespread belief in Great Britain just before the London Conference that legal action would, in fact, be taken to stabilize the pound, both in relation to the franc and in relation to the dollar; and just before the conference began it was thought that a tentative agreement had been made between the American and British authorities to fix the pound at about \$4.05. President Roosevelt's domestic recovery programme, however, culminating in his refusal to accept the proposals of the London Economic Conference for a general agreement on exchange stabilization, put an end to the possibility of pegging the pound in relation to the dollar. In addition, his subsequent policy of allowing the dollar to depreciate on the foreign exchanges had upset industrial opinion in Great Britain, because in some lines of trade British industry was in direct competition with American: for example, in the automobile industry, which in the past two or three years had enjoyed considerable prosperity, and had, by reason of the depreciation of the pound, been able to capture certain foreign and Dominion markets where American products had previously had almost a monopoly.

Japan.

The relation between currency inflation and trade in Japan was more familiar. That country, it was stated, had little choice in the matter of depreciation. It was only by heroic efforts and a drastic programme of financial retrenchment that the liberal Finance Minister, Mr. Inouye, had been able to restore the gold standard without restrictions in December 1929. The subsequent outflow of gold during the next eighteen months was so persistent that it involved the whole country in a most painful period of price deflation, intensifying an agricultural situation which was already bad. It was, therefore, highly probable that the reduction in Japan's gold reserves would have forced the Government to restore the embargo on gold exports and thus to abandon the gold standard even if Great Britain had not forestalled Japan in this respect. Naturally, when the pound fell in September 1931, Japan was put in an intolerable position. The boycott in China had already begun to affect her export trade, and the tariff policy of the Indian Government was definitely hostile to any large development of Japanese exports in that country. To face, in addition to these difficulties, the new handicap of competing against a depreciated pound, would have been disastrous, both for Japanese industry and for her mercantile marine. In shipping this handicap was painfully obvious, for in the three months between September 1931, when the pound depreciated, and January 1932, when the gold embargo was restored in Japan, British shipping had begun to capture a great deal of business that had hitherto been exclusively in Japanese hands. The new Seiyukai Administration came into power at the end of the year, pledged to restore the gold embargo, and was thus immediately in a position to begin on a programme of mild inflation which, indeed, could hardly have been avoided with the growing burden of military expenses in connexion with the Manchurian campaign.

In Japan, as in Great Britain, the anticipated effects of depreciation on the internal price level had been only partly realized. Although the yen fell very steeply, the general level of wholesale prices in Japan had not moved upward in anything like the same degree and had failed to rise even to the relatively low level of 1930, when the deflationary policy had been at its height. There were several reasons for this. In the first place, Japan's imports of raw cotton, which would have been one of the principal commodities to show the price rise, had been shrewdly bought in advance of the date when the gold standard was abandoned. Secondly, the bumper rice harvest of 1930 had exerted such a deflationary effect that rice prices still remained low over a year later, and even the operations of the government-administered rice control scheme had failed to bring about any substantial improvement. Inas-

much as the price of rice exercises a dominating influence over the whole range of wholesale prices in Japan, there had been a steadily maintained resistance to any substantial rise in spite of the extent to which the yen was allowed to fall.

The round table on currency devoted little time to considering how far the fall in the yen had been a real stimulus to Japanese exports, but the point was debated at some length in other round tables concerned with competition for markets. It was claimed by most speakers, but notably by British members, that the depreciation had undoubtedly been a powerful weapon in the hands of Japanese exporters, enabling them to undercut British competitors in many markets which British traders had regarded as reasonably sure. Now Japan, with her huge supplies of American cotton purchased before the yen depreciated and with her rapidly expanding rayon industry, had been able to make devastating inroads into markets in southern Asia, in Africa, in British India (despite a tariff of 75 per cent. on Japanese cotton goods), and even into Great Britain itself. Japanese members, on the other hand, while not denying the fact of Japan's increased exports, said that the benefit of the depreciation could only be very short lived, and that, when Japanese manufacturers had to replace supplies of raw materials, it would have to be at a much higher cost, which would make it much more difficult for them to export manufactured goods as cheaply as in recent months. They went on to argue that Japan's success in competing with British traders in certain markets of the world was due (more, perhaps, than the British members were prepared to allow) to certain real and lasting advantages, notably, the Japanese superiority of organization for export in the textile trades.

China.

China, as was pointed out by a national of that country, stands apart from other countries in the matter of currency. While it has been the fashion to consider China as having a depreciated currency, it was necessary to realize that this depreciation had not been a deliberate act on the part of the Government like the American Government's policy in allowing the dollar to depreciate. The depreciation of the Chinese dollar had been involuntary. It was simply the automatic reflection of the slump in the world price of silver, a matter over which the Chinese Government had no control. That depreciation was not peculiarly a phenomenon of the world depression, for silver prices had tended steadily downward in the pre-depression days. The fall in the gold value of the Chinese dollar had thus been a gradual process and had not aroused any great sensation in Chinese public opinion. As to how far the

depreciation of the Chinese exchange had affected foreign trade, there was some division of opinion. Certainly it had been a stimulus to a gradually rising price level in China itself, and this had encouraged a small industrial expansion in such areas as Shanghai. According to one speaker, China had, on the whole, benefited in the process. It had certainly encouraged home industry and had either fostered the export trade or had at least prevented Chinese exports from slumping as disastrously as they would otherwise have done. China's real currency problem was not so much concerned with the external exchange as with internal stability and unification. In this connexion, it was pointed out that an important step on the road to unifying China's domestic currencies had been taken in February 1933, when the old tael, in which all foreign exchange dealings had been conducted, was officially abolished. Exchange rates were now quoted in the official Yuan dollar.

Netherlands East Indies and French Indo-China.

China is not the only Pacific country to be isolated on a 'currency island'. The discussions of the round table showed that the Netherlands East Indies and French Indo-China find themselves, for different reasons, set apart from the other Pacific countries. Alone in the Pacific area they still remain on a gold standard, for their currencies are legally tied by a 'gold-exchange' relationship to those of Holland and France. Remarks made at the round table made it clear that both colonies maintain the gold standard more because of this political relationship than from any motive of promoting their own welfare. It was pointed out that both were exporting countries and had been seriously affected by the world-wide decline in raw-material prices and by the necessity of marketing their exports in countries with depreciated currencies. The reasons that justified their mother countries in maintaining the gold standard thus had little validity in the colonies faced with an entirely different problem. For the Netherlands East Indies in particular that problem had grown very acute, since the prices of its chief exports (sugar, coffee, tin, and rubber) had fallen to ruinous levels, adding enormously to the real burden of meeting interest charges on its imported capital. If the deciding factor was merely the maintenance of trade and internal prosperity in the Indies, the gold standard, according to a Dutch speaker, would have been abandoned some time ago.¹ There were other

¹ The departure of the United States (and consequently the Philippines) from the gold standard greatly aggravated the economic difficulties of the Indies. Three neighbouring countries (British Malaya, Siam, and the Philippines), producing commodities that compete with exports from the Netherlands East Indies, have now an artificial competitive advantage, while at the same time the difficulty of selling exports to the United States itself has been increased. See *The Economist*, November 11, 1933, where the possibilities of a separate currency depreciation in the colony are considered.

powerful forces to be reckoned with, however, notably the opposition of the investors in the home country who stood to lose by a depreciation of the colonial currency.

The Future of the American Dollar.

The round table devoted the latter part of its first session, and all of its second, to what was, by general agreement, the central currency problem of the Pacific, and in fact of the world, namely, the future of the American dollar. Such a discussion was inevitably inconclusive and, as subsequent events showed, rather ill founded; for although many persons believed that the President of the United States would be forced to depreciate the dollar still further, none of them suspected that the machinery for this purpose would be the obscure workings of the gold-purchase plan. The general belief, in fact, seemed to be that there would be a more direct campaign of internal inflation within the United States, and that any depreciation of the dollar would be a reflection of that. Members were strengthened in this belief by the statements of Americans present, who went to some pains to argue that the American public was little concerned with the foreign exchanges, and that attention was concentrated on the course of domestic prices rather than on the course of the dollar in London and Paris. It was only in recent months that the man in the street had slowly awakened to the fact that the foreign exchange might affect his life, and that it *was* possible for the dollar to decrease in value. There was, however, a much more lively acquaintance with the possibilities of an internal price inflation. Public opinion had become keenly aware of the choice which confronted the authorities in planning a recovery programme: either to stabilize at the present low level of prices and deal with the intolerable burden of public and private debt by deliberate revision of debt obligations and reduction of interest (as had been attempted in Australia), or to reduce the debt burden indirectly by the method of price inflation. The first alternative was believed impracticable because of constitutional obstacles. The second gained added favour by the agitation from the Western farming interests and the teachings of certain monetary theorists influential at Washington.

‘Business men’, said an American banker, ‘pay much more attention to the stock market than to the foreign exchanges; and, in fact, the recovery in the stock market since the country left the gold standard is attributable in large part to the amateur economic reasoning of the business world. People generally were confused when we abandoned the gold standard. They had not thought about the possibility and, after consulting the dusty textbooks on foreign exchange on their shelves, came to the conclusion that two

things would have to benefit—commodities and equities. There was consequently a rush into commodities and stocks accompanied by a weakening of the bond market. As far as Wall Street is concerned, opinion is still bewildered. They frankly do not understand what is going on, and this must be regarded as a period of rather painful education. When the education is completed, there will probably be a move towards stabilization, but meanwhile the Administration has found that a feeling of uncertainty is a real stimulus to increased buying. This was probably the reason why we refused to accept the stabilization programme of the London Conference. I believe, however, that the majority of people in the United States are for sound money. A further point worth remembering is the importance in this country of the market for Government bonds; and, I think, you will find that the Government's refunding operations will act as a considerable check to the drift toward inflation.'

A British member strongly supported these arguments. The stock-market psychology was, in his opinion, so important throughout the United States that political leaders, having created a slight wave of optimism, would do well to hesitate before they repressed it, as would almost certainly happen if any immediate stabilization of the dollar were attempted. He recalled the fact that Great Britain had had a mild stock-market boom when she left the gold standard; but along with it, and more important, there had also been an extraordinary boom in real estate, in anticipation of rising property values.

'As to the process of inflation', he went on, 'both the fiscal inflation and the commercial inflation which an American speaker has tried to distinguish have this similarity, that it is exceedingly hard to control them once the movement has begun. For instance, in 1929, long before the United States thought of leaving the gold standard, the whole banking world was convinced that it was necessary to keep the boom going, and therefore hesitated to apply the usual methods of banking control. Any control of private finance is difficult and unpleasant, for the public is much less critical of the way individuals conduct their business than it is of the Government.

'Even a satisfactory definition of inflation is almost impossible, and I always prefer to use simply the neutral phrase "expansion of bank credit and currency". But the important thing is to know when to stop inflating, and here it is almost impossible to find trustworthy indices. At present it seems to be the fashion to say that you should stop when wholesale prices have risen as far as the level of retail prices and wages. But here one is faced with the difficulty of keeping other "fixed" charges stable, and with the difficulty that in the very process of raising prices one is creating a new condition of economic disequilibrium. Between 1924 and 1929, most of the world's economists believed that the aim of monetary policy was to stabilize the price level. But we know that, if prosperity is judged by this test, then there was no boom in 1929, and the Federal Reserve policy of keeping a steady price

level was completely successful and ought to have prevented a crisis. But, as we now realize, this stable price level only served to conceal an underlying credit expansion of great magnitude, made possible by technical economies in industry.'

A European member attempted to distinguish two types of currency depreciation in the Pacific countries. In the first group (omitting China) are those countries which have followed Great Britain and have had depreciation without internal inflation and without any appreciable rise in the domestic price level, so that their prices in relation to world prices are still lower than they were before. In the second group he included the United States and Japan,¹ which had had depreciation together with credit expansion and rising prices, so that their prices in relation to world prices are tending back to their former level. There were indications that the first group was willing to stabilize at present levels of exchange, but the great fear was that the United States currency would go still lower, imperilling the gold reserves of the stabilized countries. What the second group of countries fear is that, if they attempted to stabilize, it would be at too high a level. This would mean that they could not then continue their programme of internal inflation, since, if domestic prices rose too high, the ensuing outflow of gold would again threaten the newly established gold standard. This fear was well founded in the case of Japan, but it was hard (at least other countries found it so) to see why the United States should fear an outflow of gold. It would not suffer, and the rest of the world would probably gain greatly if it lost a billion dollars of gold. However, at the moment the situation was quite different, for the depreciation of the dollar had been much greater than the rise in prices. Such a disparity meant that, if the United States were to stabilize at present levels and there were no continuation of the internal inflation programme, gold would tend to flow in. The only reason that it did not flow in was that people feared still further depreciation.

OTHER OBSTACLES TO STABILIZATION

Besides tariffs, where the connexion with currency fluctuations was well known, there were additional outside factors which the round table examined in considering the obstacles to currency stabilization. One such factor was the growth of hoarding, of particular importance in the United States depression. A second, perhaps more important for other countries, was the increased and threatening influence exerted on currency stability by movements of short-term capital between countries.

¹ Some members doubted whether Japan could fairly be included in this class, arguing that in certain respects there was more similarity to the sterling group.

With the great decrease in long-term foreign loans as a result of Great Britain's internal difficulties with her balance of trade and also because of the lack of confidence following the unhappy experience of American and French investors in foreign loans, the whole problem of international capital movements had been changed. The money markets were no longer willing to reinvest the interest on existing loans as they had in the past. Funds are kept on short-term balances in such enormous amounts that when they are suddenly withdrawn from a particular market (as often happens, since such investments are specially sensitive to panic movements) the whole financial and monetary machinery of a country may be disrupted. These erratic migrations of short-term capital had caused great difficulties in England, Germany, and Austria; and the present exodus of American capital to London gave promise of further complications.

In reply to certain round-table members who asked whether countries could not devise safeguards against this type of instability, it was said that the only certain method would be for governments (or the central banks acting by authority of the governments) to take the responsibility for accepting short-term loans. Another possibility was that bankers might announce that they would not pay interest on short-term capital from abroad, when the central bank so advised. On occasion it might even be desirable for the central banks to forbid the acceptance of short-term loans.

CHAPTER IV

DIFFERENCES IN STANDARDS OF LIVING

THE 1933 Conference continued a discussion on this subject at the Shanghai Conference two years earlier, which had been based on a special syllabus and a rather full documentation, particularly in regard to changes in living standards in China and Japan. In the 1933 programme the subject was considered much less fully and in relation, mainly, to one major aspect, namely the effect of different planes of living in the countries of the Pacific on their respective costs of production for export and, therewith, on their relative advantage in international competition. No important new data were before the round tables¹—except to the extent that some of the members were familiar with the research work carried on in the intervening biennium by member councils of the I.P.R., which, however, had not yet matured, and by the International Labour Office, whose chief new contribution was the study of Industrial Labour in Japan.² The round-table discussions, therefore, were somewhat hampered. first, by recollection of previous discussions which had covered much of the same ground, and, second, by awareness of the more expert examination of the subject conducted at the same time by the International Research Committee. Indeed, this committee, on the recommendation of a special sub-committee, at the end of the conference decided to assign a large part of its revenues during the next two years to a carefully planned long-term programme of studies in this field.³ The very questions that connected the topic of standards of living with the major subject of the conference programme were to be objects of intensive study, particularly in those industries in which international competition in the Pacific area is greatest. Moreover, the connexion of this topic with other subjects discussed at Banff—with population pressure, currency inflation, different degrees of industrialization, tariffs, and extension of government control—likewise was to be a major concern of the incipient programme of research. It may be said, then, that the round tables at Banff attempted a preliminary examination of these problems and tried to find clues to vital aspects of them rather than to make important new contributions to knowledge or to secure agreement on proposals for dealing with them.

¹ Although mimeographed statements on this subject by two members of the conference were circulated, these were in the nature of extensions of oral contributions rather than data, and are here so treated.

² Sidney D. Gamble's *How Chinese Families Live in Peiping*, New York, 1933, was published several weeks after the conclusion of the conference.

³ For a fuller statement of this programme, see Appendix V, pp. 476-8.

INTERNATIONAL COMPARISON OF STANDARDS OF LIVING

Differences in the material resources of nations do not automatically produce international friction. Even within the same country there are often greatly varying riches of natural resources which remain unequalized either by distribution or by migration of the people. What usually happens is that the poorer sections produce a poorer civilization: in so far as it remains stable—for there will always be some tendency of movement towards the wealthier sections—the population acquires habits of living substantially less diversified and costly than those of other parts of the country. Envy exists more often between neighbours similarly situated than between regions or nations that differ greatly in physical conditions. Each region—and where local topographical differences are great, each community—builds up its own valuations of the good life in accordance with its own means. And, indeed, with a general state of poverty, due to shallow soil, little rainfall, long winters, or other geographical and climatic circumstances, there may go a highly developed cultural life—as shown by the arts and religions of many desert regions. Such widely varying cultures may exist side by side for centuries without causing conflict. It is only when through some new circumstance—artificial barriers or, on the contrary, artificial stimuli to contact—the populations of these areas enter into actual competition that maintenance of the established plane of living becomes the object of bitter strife.

Such a situation in the United States was mentioned in the conference discussions.

‘Originally of much the same stock, the British settlers of New England and the Southern Atlantic States confronted greatly differing environments. The rich and level lands of the South, with its long and warm summers, made possible an economy of large farms and plantations in which the owners were able often to emancipate themselves from physical labour and to form a gentry devoting much time and thought to the arts of life. The rocky and poor lands of the North-Atlantic coast, with their shorter summer, made farming a much more precarious and laborious enterprise. Only a frugal life and, as population increased, a continuous exodus of the more enterprising, facilitated by the existence of a rich virgin continent to the West, made life possible at all. But the colonies of the North enjoyed one advantage over those of the South which was eventually to give them economic superiority—namely, water power. With a topography and climate that encouraged various crafts, and opportunities to hitch the growing industries to the sources of power provided by nature, the New Englanders were able to exact tribute from their southern neighbours in the form of exchange of materials for skill, and became the financial backbone of the nation. But now the symbiosis of South and North which has continued for more than two centuries is

becoming threatened by the industrial growth of the South, soon to be greatly accelerated by large-scale developments of water power. Already the textile industries have shifted to a considerable extent because—partly as a heritage of the era of slave labour which left behind an unprivileged class of Negro workers—the wage-earners of the South have remained unorganized and poor. Northern capital has taken advantage of this and planted its mills in those sections of the South which offer the best opportunities for the exploitation of their labour resources. Within the same country, then, first a higher degree of industrialization and now the active competition of sections with less developed standards of living have produced a tension which has been and may again become acute.¹

Similarly, discussion of the international competition in the textile industries² brought out that differences in planes of living, though not in themselves a cause of conflict, may become such a cause, and may contribute generally to the sense of international insecurity, when lower living costs are important factors in the difference of cost of production. It was pointed out that this is by no means always the case. A highly industrialized nation, for example, may for long be able to compete successfully in the international market against nations with much lower standards of living, either because it commands larger capital resources in up-to-date equipment, or because traditional skill and taste are important elements in either labour cost or value of the finished product. Thus British industry has for long been able to maintain its markets in the face of rising competition from countries with a shorter industrial history, even when there were no other advantages in its favour.

Members of the round tables did not always make these distinctions but were prone to confuse the part played by different levels of material well-being with the competitive advantage of lower labour costs generally which may be due to a variety of causes.

In this summary of the discussions, we shall, however, for the sake of clarity make that distinction and in the present chapter review only differences in planes and standards of living, leaving for another chapter a discussion of the way in which these differences combine with other factors to introduce an 'unfair' advantage into competitive labour costs.³

¹ Since the date of the Banff Conference many textile mills in the North Atlantic states have resumed or increased operations. To what extent this activity represents a general revival of trade and to what extent a transfer of activity from the Southern states due to an approximation of wage scales resulting from N.R.A. codes, cannot be ascertained at the time of writing.

² See Chapter VI, p. 150.

³ In a chapter summarizing the proceedings of conference discussions it is impossible to avoid the ambiguities and, sometimes, misunderstandings introduced into those discussions by lack of definition of important terms frequently used. However, editorially

A difficulty which had already been recognized in earlier conferences and which, indeed, is one of the chief reasons why the Institute finds it necessary to undertake an extensive programme of research in this field, again presented itself: there are as yet no reliable methods of comparing the standards and planes of living of one country with those of another. A representative of the International Labour Office, referring to the efforts of that organization to find objective bases of comparison, said:

‘In the vocabulary of many specialists, the term “standard of living” implies principally the totality of goods and services consumed and utilized by a family or a category of people during a stated period and in a specified place. Large quantities and superior qualities of these goods and services indicate a high standard. Comparisons have proved feasible and even easy within the same region. The difficulties multiply when different regions or unlike countries become the objects of investigation. The competent sections in our Office have not found it possible to allow scientifically defensible percentages for variations in climate which nevertheless determine the differing requirements of people with respect to housing, fuel, light, food, and drink. Nor have they discovered devices for evaluating contrasting tastes, traditions, ideals, and habits. In the complete and philosophical sense of the term, real wages or the true standard of living would have to show the total satisfaction obtained in exchange for their labour by the groups in question. Even these would not be enough. We should also have to reckon with dissatisfaction and disabilities involved in bad climates, social and political maladjustment, or physical strain associated with certain employments, and thus arrive finally at an estimate of the resultant net satisfaction.

‘Obviously, the accurate measurement of the subjective elements included in any true standard of living would presuppose the possession of a scale of values to which social science cannot lay claim; and the I.L.O. has not been so imprudent as to try to dogmatize in this sphere. Individual investigators, consciously or unconsciously, usually adopt their own scales of value which are more or less arbitrary and influenced by national or political bias.

‘Nevertheless, for everyday purposes, useful approximations may be arrived at chiefly by the judicious and critical use of two methods. The first consists in measuring the purchasing power of income in a certain aggregate

the distinction is made as much as possible between the *plane* of living, which represents the totality of commodities and services consumed by a given group, and the *standard* of living, which ‘is a set of attitudes toward certain values—goods and services, economic or non-economic—which are taken for granted or are insisted upon, and for the securing or maintenance or restoration of which active efforts and sacrifices will be undertaken’ (Thomas D. Eliot, *American Standards and Planes of Living*, Boston, 1931). Planes of living represent the choices of particular groups as modified by actual consuming power. *Real wages* represents the actual income from a given occupation, which normally but not necessarily is equivalent to the money cost of the plane of living. Standards of living, planes of living, and real wages tend to approximate where the last named remain stable over a long period; but in given situations they may diverge to a considerable extent.

of commodities and services. Between regions and countries with somewhat similar tastes, habits, and social conditions, real incomes usually indicate the prevailing standard of living with sufficient accuracy to be of practical service to statesmen and social scientists.

'The second method consists in a minute comparison, item by item, of the elements entering into the daily consumption of the groups under investigation. The material may be found in the various national family budget inquiries which supply the necessary figures for cost-of-living indices and give us the most reliable picture we possess at present of the actual needs and manner of living among working-class populations.

'By the application of these two methods, our Statistical Section has been able to bring out a number of studies and to publish periodical statements in our *International Labour Review* which have proven of great practical value to many governments as well as to organizations of employers and workers.'

The difficulties described by this economist in general terms were illustrated in concrete examples by a number of round-table members. A Filipino pointed out that beds of the sort enjoyed by the members during the conference week would be instruments of torture in a tropical climate. Filipino youths who were sent to American colleges came back with tastes in clothing and diet that could be satisfied only at the cost of physical suffering. Another member asked how the degree of satisfaction could possibly be compared which one member got from the installation of a Japanese garden, and another from a long automobile trip. Even in regard to food alone, no reliable method has yet been found to discount in comparisons of their adequacy the widely differing habits of various peoples.¹

In short, there are always 'imponderables' in a comparison of different ways in which similar needs are satisfied. For example, it was said, an American business man's wife might be no better off with four servants in China than with one servant in the United States, where many of the services that are performed by domestic employees in China are performed for her in factories and by great service corporations. Besides, how can one weigh the relatively greater ease of house-keeping in one country against the social prestige connected with the maintenance of a larger household in another? An English member postulated that the more distant physical consequences of different ways of living should enter into comparisons no less than immediate satisfactions. For example, in countries where child labour is customary, unquestionably the working-class household has an advantage in greater

¹ See D. T. Sawkins, 'The Australian Standard of Living,' Chapter II of *Studies in Australian Affairs*, Melbourne, 1928.

consuming power ; but this advantage is purchased at the cost of lowered physical efficiency.

Security, likewise, is a 'satisfaction' that may not be equally measurable in terms of purchase price or value in different countries. The Chinese are thriftier than Westerners of comparable classes, according to one student ; yet facilities for the organized control of savings are less developed, and thrift is more costly in sacrifice for the individual family. On the other hand, according to one spokesman, Australia, which is hardly excelled in the material planes of living enjoyed by the majority of its citizens, is also the most extravagant. Thrift and extravagance have their attractions for people of different temperaments (and for the same individual at different times) ; but how measure against each other the satisfaction of the housekeeper who returns from her marketing with a bargain and that of the spendthrift cowboy who has his horse shod with gold ?

The question was raised whether it was not possible to substitute for comparisons of itemized planes of living comparisons of categories of goods and services consumed—nutrition, warmth, aesthetic enjoyment, provision for the future, &c.—reducing each item as nearly as possible to energy value, and presenting for international comparison only the final product of each estimate in terms of energy. It was believed that such a comparison, eliminating both differences in habits of consumption and differences in currency values, would probably show that the 'cheapness' of life in the industrially less developed countries has been greatly exaggerated.

CHANGES IN STANDARDS AND PLANES OF LIVING

One of the round tables concerned itself more especially with another factor that makes international comparisons of standards of living hazardous, namely, the fact that in many parts of the Pacific area they are rapidly changing, so that, for practical purposes, it is often more important to know the trend—as yet largely in the minds of people—rather than the passing reality that may be ascertained through a study of family budgets. An American member said :

'We are passing through a change in point of view as to the significance of the standard of living in international affairs. We must keep in mind that the old concept of a standard of living dates from the middle of the nineteenth century. Much of our thinking is still affected by a hang-over of conditions that have passed away. Eighty years ago, the basic needs of the working population of the world were related to a few essentials, such as food and housing. Differences in standards of living stimulated an expansion of international contacts and were not a source of conflict. At the 1931

Conference on Economic Planning at Amsterdam, a Russian delegate cited an annual 20 per cent. increase in the meat consumption over a number of years as an indication of the rapid change in Russian dietary habits. Similar changes, though not perhaps quite so dramatic, are reported from other countries.'

The rather thorough study of wages and costs of living in Japan conducted by the International Labour Office¹ shows that a rising family income is accompanied by a marked decrease in the proportion of the family income spent on food, housing, clothing, light, and fuel, and a corresponding increase in the proportional expenditure on hygiene, education, transport, &c., with an even larger proportional increase in the expenditure for recreation, social purposes, and luxuries. Sidney D. Gamble, in his new study of Chinese family budgets,² presents facts which seem to indicate that the trend in the direction of adopting new ways of living is much less pronounced in the old capital city of China than it is in Japan. For example, even in the higher income groups the proportion of the budget spent for clothes is smaller than that spent by comparable Japanese groups—presumably because artisans and salaried people in Peiping have not yet to any extent adopted Western clothing. Similarly, the expenditure on communication—which may, perhaps, be taken as another index of modernity—seems to be exceedingly low. On the other hand, the expenditure on weddings and funerals—indicative of a traditional scale of values in the standard of living—is still very high. Indeed, it is significant that in a study of household budgets one of the most important chapters is devoted to this subject.

On the other hand, an examination of significant items in Chinese imports over a period of twenty-two years, made possible by another data paper,³ indicates a seemingly pronounced change in the kind of goods consumed which the categories of household budgets do not reveal. We find, for example, that between 1910 and 1932 the value of imported chemical products has steadily risen from half a million to thirty-five million Hk. Taels, that of dyes and pigments from ten to thirty millions, that of paper from five and a half to thirty-five millions. The importation of woollen goods has more than doubled, the value of vehicles introduced—that is, chiefly automobiles—increased from half a million to sixteen million Hk. Taels. The total value of manufactured goods has nearly doubled. Changes in the volume or value of imports do not, of course, signify corresponding changes in consumption as they

¹ *Industrial Labour in Japan*, Geneva, 1933, Part IV, Chapter III.

² *How Chinese Families Live in Peiping*, New York, 1933.

³ Djang Siao-Mei, *The Position of China as a Producer of Raw Materials and a Consumer of Manufactured Products*, China Council, 1933.

also reflect changes in home production and in general prosperity.¹ It is true also that a large part of this trade is confined to the treaty-port fringe of China. Yet it is safe to conclude that a considerable increase in the imports of such manufactured goods as machinery, kerosene, tobacco, chemicals and dyes, vehicles, &c., marks a stage of heightened desire for the products of large-scale manufacture at a time when the domestic industries are not ready to supply them.²

Not only are planes of living changing, but also, as previously stated, the attitudes towards them. The caloric statement of diet content which ten or twenty years ago still served largely as a basis for comparisons of food consumption is no longer considered adequate; the Chinese diet, for example, when vitamins are brought into the comparison, is found not to be nearly as deficient as had been thought; Japanese dieticians among others have come to recognize that the aesthetic qualities of food are not as negligible as was once assumed, even from the point of view of minimum requirements.

Popular evaluations of different kinds of commodities and services have been profoundly modified by world trade and international contacts generally. What different peoples and different classes in each Pacific country regard as minimum standards to-day represents both extensions of requirements and willingness to change them. The growing substitution of wool for cotton in both China and Japan may be mentioned as likely to exercise an important influence on the textile trades. Further, Japanese speakers reported that, partly under the influence of Western civilization, there is a growing demand for rayon in place of cotton not only in the Far East but also in Malaya, India, and Africa—corresponding to an earlier trend of the same kind in the Western countries.

Thus, the causes of change in standards of living came in for a more detailed analysis. The International Research Committee, in a series of questions for further investigation,³ mentions as the most important of them: international trade, the development of a money economy and

¹ An enormous increase in the Chinese imports of wheat flour, for example, may not be a permanent enrichment of the national diet but merely a symptom of distress—a serious loss of crops through floods and other causes that had to be made up by importation of food materials. On the other hand, the large increase in the importation of paper—tenfold between 1903 and 1932—is a particularly good index of modernization in living standards; for modern civilization, though sometimes identified with the 'steel age', is, perhaps even more characteristically, a paper civilization. Whether used for communication or for wrapping, paper means increase and extension of contacts. The destruction of a native industry here goes together, it would seem, with a greatly increased consumption of the product.

² See also Chien Tsai and Kwan-Wai Chan, *Trend and Character of China's Foreign Trade, 1912-1931*, China Council, 1933.

³ See Appendix V, pp. 476-8.

changes in currency policy, extensions of the scope of government services—such as social insurance, municipal aid to housing, and the like—the development of new labour systems—including provisions for the welfare of the workers—industrialization, tariffs, migration policies. Population pressure also is mentioned as a possible influence on standards of living; but to the round tables it seemed that in the modern world this influence more often manifests itself indirectly, through the adoption of new national policies of the kind just indicated.

The disruption of established cultures, and of the valuations and beliefs that lie back of them, may produce depressing as well as stimulating influences on standards of living. Thus it was pointed out that the throwing together of different racial groups through large-scale migration and recruitment of foreign labour does not necessarily mean that the more backward group accepts the standards of the more advanced. Where such transplantation is accompanied by exploitation, a deterioration of the traditional standard of living is often the consequence. While there are few examples of this experience in the Pacific area, the feared consequences of such mingling of civilizations in different stages of growth was seen as an important factor; it had prevented a large-scale Japanese emigration to Manchuria and had been the principal motive for the rejection of Oriental immigrants in North America. In several countries of the Pacific the presence of a considerable group of Chinese trades-people was seen by some as a barrier to the economic rise of the native population thus deprived of a middle class of its own which would stimulate the rest of the population to demand more of life.

STIMULI TO THE ADOPTION OF HIGHER STANDARDS OF LIVING

There was little doubt in the minds of the members that, generally speaking, standards of living are rising throughout the Pacific area. But even in this optimism contention arose over the concept of 'higher' and 'lower' living standards. A merely quantitative comparison was rejected by most. A larger consumption of the basic commodities may coexist with an increased drabness in the surroundings of the people. The life of the plantation labourer in the Pacific tropics was unfavourably compared with that of the member of a more primitive Malayan or Polynesian community. Chinese and Japanese members likewise warned against an unconscious introduction of Western standards of value into the appraisal of Eastern ways of life. Thus a Chinese speaker said:

'The standard of living rests on two levels: on the one hand, security, physical well-being, leisure—on the other, tradition, culture. They include ideas as well as material comforts, the satisfaction of higher as well as of lower aims.

'Are the so-called "higher" standards of living always the better? They may only be costlier. In the Orient we must aim at a wider satisfaction of fundamental physical requirements; but beyond that we need not go in the imitation of Western civilization. We can do without chewing gum, radios, white porcelain bathroom fixtures. The Western standard of living has been corrupted by a universal desire for social prestige. Thus there is much imitation of real values—in jewellery, for example—that represents only waste. . . . We should avoid the imputation that a less fastidious standard of living is necessarily a poorer one.'

With this expression a Japanese speaker fervently associated himself. Yet to others, Orientals as well as Occidentals, it seemed that a derogatory attitude towards Western material culture often is little more than an unconscious compensation for a sense of inferiority. Thoughtless imitation, an important factor in the rising living standards of countries drawn into increased contacts with Europe and America, though often a dubious gain, nevertheless, it was stated, is a useful first step to the appreciation of a life organized to meet a richer diversity of wants and aspirations. Even imitation jewellery was defended as an indication of aesthetic wants in the midst of poverty. 'It is too easy', said an Englishwoman, 'for the well-to-do to legislate in favour of a stoical philosophy for the poor.'

Incidentally it was denied that contact between groups with traditional differences in standards of living necessarily produces assimilation. Even in regard to items of expenditure that involve prestige, the values attached to them by different classes in the same community may not be the same. Japanese residents on the Pacific coast of North America, for example, often combine with a decidedly lower consumption of what Americans regard as essentials a higher expenditure than that of their neighbours of similar economic status on education and books. Such differences as these may continue even unto the third generation!

A more potent equalizer of standards of living than conscious imitation was seen in the levelling influence of modern salesmanship. Speakers from China, Japan, and the Philippines felt that it should be an object of popular education in their respective countries to steel the people against this influence, in so far as it is supplanting traditional cultural values by values unsuited to the climate, economy, or inherited traits of their people.

It was pointed out by others that the adoption of Western wants in Eastern countries does not necessarily mean a substitution of a new for a traditional set of cultural values. On the contrary, migration often results from aspirations that have long lain dormant under unfavourable economic circumstances and are expected to find their satisfaction on

distant shores. Thus it was disputed, as a matter of observable social psychology, that immigrants from a country with a lower plane of living compete in the labour market on the basis of their previous condition; dissatisfaction with the plane of living at home, it was said, has been one of the principal causes of their migration. This statement was illustrated afresh with a reference to Chinese migration to Manchuria—where, it was reported, immigrants will not ‘stick to the job’ assigned to them in recognition of their previous experience, but leave the agricultural colonies to pursue the higher standards of living which they have come for. Thus a flight from the land and increasing urbanization is no longer a phenomenon characteristic only of Western countries but also of Manchuria and of parts of China where armies composed of country boys have been disbanded.

Another artificial stimulus was seen in the deliberate efforts of governments and large employers of labour to increase standards of physical efficiency. Several of the data papers before the conference incidentally illustrate this tendency. Mr. Wyndham in his study of *Native Education*¹ refers to efforts in Ceylon to provide industrial education conforming to local conditions, with the object of reviving traditional skills, and a movement for the introduction of school gardens (p. 66). Similarly, in British Malaya hygiene and physical training are receiving greater attention; and other educational reforms are designed directly to assist in the improvement of living conditions (Chapter XVIII). In part indirectly, as through the modernization of land tenure and other agrarian reforms, more consistently through a gradual transformation of the system of public education, not only the governments of these countries but also those of Java, the Philippines, Formosa, and the French colonies in the Pacific, according to this account, are effecting a change both in the desires of the people for a richer material culture and in their ability to satisfy them.

In another data paper Dr. Alzona shows how much the Government of the Philippines has done, since the introduction of the American rule, to raise standards of living by encouraging the rising status of the Filipino woman.² She refers especially to the great achievements in the improvement of public health and the development of social services. Speaking more especially about the influence of the Government on standards of living, she says:

‘The present social customs of the Filipinos show unmistakable evidences of American influence. Contact with Americans and the importation of

¹ Hon. H. A. Wyndham, *Native Education in Ceylon, Java, the Philippines, Formosa, French Indo-China, and British Malaya*. Oxford University Press, 1933.

² Encarnacion Alzona, *The Social and Economic Status of the Filipino Women*, Philippine Council, 1933.

American goods, books, magazines, sports, and talkies inevitably affect our social life. Like the Americans, our men and women have become motor-minded, so to speak. They are developing a keen taste for American motor-cars, and women driving automobiles are no longer an unusual sight in the streets of Manila and provincial towns.

‘American sports have many enthusiasts among our women. . . . Changes in dress fashions have also become evident, induced by the increase in the number of outside activities of women. . . .

‘The cultural progress of the last thirty years has lessened to a noticeable degree the number of early marriages.’

Mr. Eggleston poses the question whether the Australian Government has not, perhaps, gone too far in establishing a standard of living which many believe impossible to maintain with the existing resources of the country.¹ Speaking of industrial labour, he says:

‘The farmer has to work harder than the artisan and, when his debts are taken into consideration, for less than the standard wage. On the other hand, the living standards we fix, though expensive, are only nominally high, and in the essentials of life not as high as the subsistence gained by the peasant from his allotment.’

Another Australian data paper² similarly deplores many of the past endeavours of the Government to bolster up the country’s living standards as having been too costly and disconnected to produce the desired result, but looks with confidence to the future:

‘The future average standard of living depends upon the intelligent direction and handling of home investment. If public investment can be rescued from the predatory politician, and private investment from the canons of ultra-conservative finance, then an extremely rapid rise in living standards may be expected to result from the investment of the annual savings, in the course of the next twenty years.’

Members from Australia and New Zealand claimed that in their countries national policy as a whole is to a very large degree directed towards the creation and maintenance of a high standard of living. Practically every one of the attempted forms of government control might be considered from the point of view of its effect on these standards.

Speaking of China’s economic reconstruction plans, Gideon Chen says:

‘A primary aim of economic planning is to increase production, not as an end in itself, but for the purpose of better living conditions; not only to raise the standard of living, but also to change the life and culture of the people.

¹ F. W. Eggleston, *State Policy and Development*, Australian Council, 1933; later included in *The Peopling of Australia (Second Series)*, Melbourne, 1933.

² G. Packer, *Population Absorption and the Standard of Living*, Australian Council, 1933; later included in *The Peopling of Australia (Second Series)*, Melbourne, 1933.

The social and cultural aspects should be planned and co-ordinated with economic activities.¹

That this objective is, in fact, underlying the Nationalist policy was stressed by several Chinese speakers: Sun Yat Sen's Principle of the People's Livelihood and various platforms and resolutions of the Kuo-mintang were quoted to show that the national programme of reconstruction has for its main purpose the raising of the buying power of the masses and the provision of living and working conditions that make for health and a rich cultural life. The director of the Health Administration of the National Government of China was quoted as saying, 'The National Government in Nanking has paid more attention to the health of the people since it was established than any government in Peking during its entire period of existence.'²

Even for one of the colonial governments it was claimed that the main motive underlying the structure of administration was 'the firm resolve that the native people shall have as high a standard of living as possible'. The French speaker who thus introduced a statement on French policy in Indo-China further gave it as his opinion that, owing to this regard for the material welfare of the people, Communism had not been able to make any inroads in that colony.

Both in Indo-China and in the Dutch East Indies examples are not wanting of private initiative in efforts to use labour contracts as a means of stimulating new wants and educating plantation workers and their families in better ways of living. However, the discussion at the round table that went fullest into this subject took its chief examples from Hawaii and Japan. 'The Hawaiian Islands', according to one speaker, 'may be regarded as an experiment station in the improvement of living standards.' The two principal industries are in an unusually favourable situation for such experiments. One of them, the growing of sugar cane, is sufficiently protected by being within the United States tariff zone to be able not only to pay a wage rate far in excess of that paid in other cane-growing areas, but also, owing to the lack of competitive labour opportunities and with a minimum period of three years' indenture of labour, to subject its workers to a régime costly in administrative services. The pineapple industry, sharing with the sugar planters a common system of labour recruiting, is practically without direct competition since its product is unique, and so is able to take part in the larger experiment of setting up entirely new standards for the treatment

¹ *Chinese Government Economic Planning and Reconstruction since 1927*, China Council, 1933.

² Y. C. Hoe, *The Programme of Technical Co-operation between China and the League of Nations*, China Council, 1933, p. 18.

of indentured labour. The paternalistic system of the Hawaii employers is too well known to require description here. For its results was claimed a marked improvement in health, and lowered infantile mortality, a physical efficiency which goes far to compensate the employers for their intelligent effort, and a permanent improvement in habits of life which has become a source of general satisfaction in the Philippine Islands from which the labourers are now exclusively recruited. Whether these and other benefits have been bought too dearly with a corresponding loss of freedom on the part of the individual workers was a question raised that could not be answered on objective grounds. The unwillingness of the children of plantation workers to continue their fathers' calling was cited as a proof of dissatisfaction; but, on the other hand, it is by no means clear to what extent this desire for a different mode of life is the result of the parents' dissatisfaction with their lot, and to what extent it is the outcome of a school system which, in spite of recent changes, is still too largely modelled on those to be found on the American mainland. The view was expressed by a Hawaiian scientist that before long the higher level of well-being—compared with earlier plantation conditions—that could not have developed other than on the basis of a strict discipline, will be self-perpetuating, so that paternalism will gradually disappear as a factor of importance in the rise or maintenance of higher standards of living.

Even more controversial was the discussion of the conditions created for their workers by Japanese industrial employers, especially in the textile industries. It was stated that the dormitories and general living conditions provided for mill employees are in many cases superior to those provided for their students by the poorer colleges. The sleeping-in system was held to be inevitable because Japanese family life and the nature of the houses occupied by families do not permit of taking in boarders. While in the past there has been much criticism of the ravages of tuberculosis, contracted by young female operatives in the cotton mills of Japan, it is believed that the cause lay largely in the lack of immunity to this disease of a country population that had had little experience of it prior to the development of the country's industries; and that the incidence of the disease is likely to diminish as this initial phase is passed. The recentness of Japanese labour legislation is another factor. Concerning the dormitory system, which alone is relevant to the present chapter, the report of the International Labour Office concludes:

'It would appear from the evidence . . . that conditions in the dormitories are satisfactory, at any rate in the case of the larger undertakings. Nevertheless, the limitations of personal liberty involved have appeared excessive to some observers, and the question of combining the advantages of the system

with a greater degree of freedom of movement will no doubt continue to be examined.¹

As elsewhere so in Japan industrial employment has affected living standards, chiefly, however, not through any deliberate educational influences upon the workers but through the urban contacts made by the workers and the fact that large numbers of them return, after a period of industrial employment, to their native villages. How great this influence is has not yet been ascertained but is part of the programme of research to which the Japan Council of the Institute is addressing itself.

The Need for Education.

Members from Western and Eastern countries alike gave it as their opinion that, no matter what standards of value are applied, the free flow of influences on the living habits of the people is charged with danger. Some, in every national group, were more concerned than others over the arbitrariness with which high-power salesmanship affects the purchasing habits of the uneducated; others seemed to be opposed to the setting of any barriers to consumers' freedom of choice, either by governments or by employers. But the general feeling was that a process of education is essential if movements for a more equitable distribution of wealth are to result in higher planes of living for the masses. Increased power of choice, it seemed to be agreed, may be the cause of wastage of wealth unless there are opportunities for training the exercise of that power.

The question followed, How can such education best be provided? Though very little time was given to this part of the subject, there seemed to be no question that the public-school systems, both in the independent states and in the dependencies of the Pacific, must take the largest share of the task. Methods of administering labour laws, social insurance, and a growth of responsible participation in self-governing workers' and farmers' organizations also were mentioned, through typical examples, as means to the same end.

Lastly, the question was asked, What can international co-operation contribute towards this end? It may perhaps be directed at some future time towards the control of mutual influences that disrupt existing standards of living without improving them. At a round table on communications, to be reported below,² the feeling was expressed that more might be done in countries that are large exporters of moving pictures to subject such exports to censorship with the aim of protecting the audiences in the receiving countries against getting false and unwhole-

¹ *Op. cit.*, p. 376.

² See Chapter X, p. 235.

some views of Western civilization. But it was hardly felt by any one that such censorship could go so far as to protect people against stimuli to adopt parts of the Western material culture which, objectively regarded, may possibly not be good for them. Similarly, the influence of returned students was mentioned, for China and the Philippines particularly, as by no means always in the direction of sound assimilation of Western ideas and tastes to Eastern needs. The question was raised whether tariffs could ever be formulated with the design, as one of the main objectives, to keep out commodities that add nothing to the welfare of the people. These potential instrumentalities for regulating the cultural impact between nations are yet far outside the possibility of control in the interest of welfare.

On the other hand, there already exists an international agreement based on the assumption that the adoption of a suitable minimum plane of living in every country is essential to the welfare of all. In so far as this is a matter of labour conditions, both the Treaty of Versailles and the Covenant of the League pledge the signatory Powers to the establishment of social justice.¹ The leader of the Japanese group at Banff pleaded for concerted action to establish a universal minimum plane of living, in terms of physical necessities, that shall be binding on all nations. He did not contend that such a plane would represent an acceptable standard of living for any country; on the contrary, he made it clear that each country, according to the habits and customs of its people, would have to add other minimum requirements, including also provision for the traditions, the comforts, and the luxuries which are part of the recognized demands of a worthwhile existence. Without some definite minimum physical requirements, which could be stated in terms sufficiently general to permit their varied interpretation in relation to climate and other conditions, several members held, it would not be possible to judge whether in any given case the labour conditions enforceable by law are 'reasonable' or not. While the International Labour Office is limited in scope to conditions of employment, yet its studies have for some time indicated that the member countries are aware of the fundamental importance to international relations of the living conditions of peoples as well. From the point of view of international conflict, it is important not only that industries entering into competition in the markets of the world shall be humane in the treatment of their workers but also, as several of the round tables seemed to agree, that they shall enable the workers and their families to lead a worthwhile existence. This interest will be further developed in the next chapter.

¹ See Chapter V, below, pp. 114-15.

CHAPTER V

DIFFERENCES IN LABOUR STANDARDS

CONSIDERABLE confusion was introduced into the round-table discussions by a use of the term 'standards of living' in senses ranging all the way from 'the arts of life' to 'real wages'. More often than not it was assumed without argument that differences in ways of living give an 'unfair advantage' to one group of workers over another. On the other hand, when there was talk about possible methods of equalizing differences in costs of production due to differences in the remuneration of labour, some members jumped to the conclusion that a proposal was on foot to reduce all peoples to the same way of living, regardless of their cultural heritages. Little progress was thus made in the examination of the part which differences either in planes of living or in wages play in the international economic conflicts of the Pacific area.

Early in the conference, however, a proposal made by an American member (to be further described below) for linking national tariff policies with international labour legislation focused attention on the main channel through which disparities in standards of living influence international competition. The more discerning members realized that international labour conventions cannot and should not equalize all costs of production, though they may contribute towards that end, and so addressed themselves to the much more important reverse question: How does international competition influence labour conditions and standards of living? Indeed, one member laid down the doctrine that the only thing which justifies a national or international economic policy is a concern for the maintenance or improvement of standards of living.

While, therefore, the discussion was diffuse and ranged back and forth between those primarily interested in conditions of labour as a means and those regarding them as an end, it has seemed best here to summarize in a separate chapter those parts of the round-table procedures which had to do primarily with the relation of conditions of employment, on the one hand, to standards of living and, on the other, to the respective strength of the various national industries competing for markets in the Pacific.

CAUSES OF DIFFERENCES IN LABOUR CONDITIONS

Differences in conditions of employment arise from many causes that are sufficiently familiar. Yet the tendency persists to attach a moral stigma either to groups that subject themselves to conditions of employment inferior to those acceptable in industrially more advanced coun-

tries, or to employers who take advantage of low labour costs wherever they can find them. But rarely is it realized how much consumers the world over benefit from the fact that many of the commodities they enjoy are produced at a low labour cost. It is not even sure that groups which accept wages inferior to those paid for similar labour in some other country are always worse off as regards the total material circumstances of their life.

Climate is an important factor. The Canadian wheat farmer—forced farther and farther north, as one speaker described it, by an uncontrolled ‘mining’ of the soil through past decades—is in competition with the wheat grower of warmer lands. He requires in food, clothing, and fuel an excess over the requirements of his competitor that must express itself in a higher cost of production, without direct relation to different degrees in efficiency or other factors. The existence or non-existence of alternative opportunities of gaining a livelihood is probably the factor of second importance. These opportunities, again, depend to a large extent on natural resources and on density of population. A country with a recent industrial development, like Japan, has the advantage that the great majority of its population has been brought up in the traditions of a rural economy and can return to agriculture, either temporarily during a period of unemployment, or as a permanent part of a life’s career, as in the case of most female mill-workers. On the other hand, Japan’s industrial development is not yet sufficiently advanced to give the workers the advantage of additional bargaining power provided by offering a variety of alternative opportunities of employment. In China, likewise, the theoretical advantage of possible employment on the land does not materialize; but, on the contrary, according to most observers, the industrial worker is handicapped by the large reservoir of potential man power in the rural sections.

The situation is entirely different in a country like Canada or New Zealand, where the rural vocations themselves are highly organized and made to support a relatively high standard of living. For, while the farm population does provide a potential addition to the urban labour forces, only a catastrophe, such as a prolonged drought, could make that influx large or desperate enough to constitute a threat to the established labour standards.

An interesting though often overlooked fact that may increasingly influence thinking about the relative advantages and disadvantages of an agricultural setting for the development of industrial standards is that the increased contacts between town and country are more important for the change of standards of living than are increased international contacts, because they are more direct and intimate. Even in

remote parts of the Pacific area, improved communication has upset long-established habits and ideas; peasants no more than labourers are satisfied with the way of life of their fathers but demand changes which only an increased productivity or, in some cases, a revolutionary change in the distribution of the wealth wrested from the soil can satisfy. To quote a member of the Canadian group:

'The farmer in Western Canada to-day expects to have some of the luxuries of life. He wants a motor-car, he wants a radio, sometimes he wants to go south in the winter to escape the cold; yet in his ability to get a larger living from the land, he cannot be compared with the Oriental who has come to this country.

'We have to revise our standards here. We are trying to make agriculture produce a type of living which perhaps agriculture never can afford. The problem is, how to get agriculturists back to a type of life that they can support. We go to Manchuria and there find people on the land who look and live well according to their standards. They are more or less satisfied. They do not wish for the finest. And, of course, our agriculture is in competition with agriculture in Oriental countries. If we try to keep that competition out of this country, we are bound to meet it elsewhere. We are expecting too much of agriculture; it cannot produce the things we want it to produce.'

It was pointed out, in reply, that the Western farmer commands an advantage, through his use of machinery, that may well make up for the additional burden which his higher standard of living places upon his production costs compared with those of the Oriental farmer. But there were no reliable data to make such a comparison possible. Some British and American members held that even in the wheat belt of Canada and the United States the use of mechanical aids to agriculture has in some cases been brought to a point where it is no longer economical; and similar doubts were expressed about the reliance upon power-driven machinery in the agricultural programme of the Soviet Union. Technical improvements cannot be considered in this connexion apart from the system of land tenure and the share of the product taken by the land owner. In Manchuria, for example, an American familiar with that region stated that the Chinese immigrants, after experiencing a temporary benefit from the farming of new lands opened to settlement, already have been forced down to a mere subsistence level by the rents exacted by absentee landlords. Other evidence to the same effect was found in a Chinese data paper. High taxes, high rents, and usury have combined to reduce the size of farms and to deprive the farmer of his stock and other aids to good farming. So the productivity of the land is declining, and even the wealthier farmers are throwing land on the market to escape intolerable burdens.¹

¹ Chen Han-seng, *The Agrarian Problem of China*, China Council, 1933. See Document II, p. 271 *et seq.*

An interesting contrast was noted between the ways in which differences in natural resources as between Western and Oriental countries affect the relative positions of agriculture and industry. While Western farmers see in the competition of the East, as well as the less direct competition of the tropics, the chief cause of their inability to reach the high standards of living to which they aspire, industrial workers in the West, on the other hand, are privileged by their easier access than those of the East to the principal raw ingredients and sources of fuel. The lower standards of living of Japanese industrial workers, according to one Japanese member, are due principally to the greater cost of procuring coal and necessary minerals for Japanese industries. British industry in its beginning had the inestimable advantage of ready access to the British coal veins and a correspondingly low cost of power.

But just as in agriculture a high capital investment may sometimes be a liability rather than an asset, so in industry also, it was stated, a higher productivity, where it rests not on natural advantages but on a more costly equipment, may not always ensure a lower cost. This greater capitalization per unit of production often is encouraged by high tariffs, with the result that part of the cost is borne by the consumer, thus raising the labour costs for the country's industries as a whole.

In short, it was found that differences in wage levels are due to a great diversity of causes among which natural advantages do not always play the same part. Nevertheless, a British economist argued at length that where such differences exist on a large scale they are ultimately due to differences in productivity:

'Any discussion of the question of standards of living must start from this hypothesis. The differences in the so-called standards of living between the East and the West arise from the fact that the latter has so far increased its potentialities for production, while the former, not having these potentialities, is correspondingly less exacting in its demands.

'The whole question is one of *per capita* output. High production *per capita* will always result in higher possibilities of material and other comforts. . . . Why is the standard of living of Americans, at least in the northern states, higher than almost anywhere else in the world? Because by various devices productivity has increased extraordinarily. The productivity of Grand Rapids is not high because the people of that community enjoy motor-cars and grand opera, but it is the other way around. For communities as well as for individuals, the standard of living is a result of productivity. The latter guarantees the former.

'Shortened working days have not increased productivity. . . . Primitive peoples must work continuously from dawn to dusk to scratch a bare subsistence from the soil. If they were to pause for any length of time to contemplate nature, the simple result would be that they would starve to death.

'Productivity may be somewhat influenced by changes in the standard of living—particularly shorter working days—but this does not alter the fundamental proposition.

'The standard of living is lower in Asia than in the West, not because the Western world is two hundred years ahead in industrial organization but because the productivity in Asiatic countries is low. In the case of China, you cannot raise the standard of living without providing capital and lowering the rate of interest on it, and decreasing the population. The case of Japan is less acute; but, despite rationalization, the average *per capita* equipment is lower than in the West. . . . The low standard of living is fundamentally a problem of reorganizing the economic life of the East. It should be stimulated by every known process; and then the conflict between countries with low and high standards of living will disappear.

'These are fundamental assumptions, and we now turn to the debatable question: How far do low standards assist the competitive position of a country? Assuming that the Japanese are successful in a particular line, must it be due to low standards of living? A low wage rate or standard of living is no evidence of ability to compete. The unit cost of production is the basic factor. If a low wage is accompanied by a low output *per capita*, the competitive efficiency is no higher.

'It is asserted in America that certain industries paying high wages can beat British industries paying low wages. This statement implies a fallacy. If higher wages are accompanied by higher efficiency you may still have a lower unit cost *per capita* output.

'There are cases in which the standard of living is so low as to compensate for a low *per capita* output. The entire population situation is bound up with this. . . .

'We have exaggerated the importance of the standard of living and thereby provided one of the many causes of unrest. The idea has poisoned the minds of the British—and perhaps is about to do so in America—against Japan. No tariff scheme to offset Japan's lower wages will be a solution. It would merely play into the hands of lobbyists for special interests.'

In his last remarks the speaker had reference more particularly to an elaborate defence of the Japanese position in international competition by a Japanese economist which had been circulated among members of the round table.¹ The pertinent passages read as follows:

'In regard to the conflicts that are brought about by the disparity in the standards of living, there are three aspects: one is economic, one is political, and one is cultural. . . . I will confine my discussion to that of foreign trade.

'The so-called "unfair competition" of Japanese manufactured cotton goods in India with those of Lancashire is before the eyes of the world. The allegation is that this competition is unfair because the Japanese goods are manufactured by cheap labour. . . . I beg to question the underlying assump-

¹ Kamekichi Takahashi, *On the Standards of Living*. Mimeographed, 2 pp.

tion that the poorer conditions of labour, as such, constitute unfair competition. . . .

‘In the first place, the cost of production in various countries is conditioned by different factors. For instance, in one country natural resources are abundant, while in another they are scarce. And then again, in one country the charge of capital outlay is low, while in another it is high. In Europe and America, these conditions are more favourable, while in the Far East these are extremely unfavourable. These differences in the cost of production in various countries due to these causes are adjusted under the capitalistic system by different conditions of labour. Therefore, it is inevitable that there should be differences in labour conditions in various countries with unlike amounts of natural resources and charges of capital outlay. Under such circumstances, the countries with lower wages are not necessarily underselling those with higher wages.

‘In the second place, we must not forget that in every country there is a national standard of wage, which is the basis for the wage in each industry: this national standard of wage is an expression of the productivity of that nation as a whole. Therefore, it is not fair to compare one particular industry in one nation with the same in another, and conclude that one is based on cheap labour, while the other is not, and that it therefore threatens to lower the standard of living in the latter country. The comparison must be made with full consideration of the national standards of wage of these two nations.

‘In this connexion I want to call your attention to the very important fact that in Japan the national standard of wage is determined mainly by the income of the farmer. The farmers constitute the majority of the working population of Japan. When the industrial workers are out of employment, they return to native villages from which they originally came.

‘I leave it to the judgement of the fair-minded people of the world whether the so-called cheap labour of Japan is a menace to the so-called higher standard of living of the world, or whether the high tariffs of various countries are making it difficult for a nation like Japan to improve her labour conditions and increase the wages of her labourers.’

A more dynamic view of the situation was taken by another Japanese speaker who said:

‘Comparing labour conditions in Japan and China, we find many divergencies, especially in regard to wages and hours. The Japanese trade-union movement has tried in the last twenty years to improve the condition of labour, year by year, in co-operation with the International Labour Office at Geneva.

‘Since the Japanese labour movement began to organize, in 1912, the trade-union organization has passed through various stages and now has reached its consolidation in the Trade Union Congress, established by the organized workers in 1931. Now our trade-union front is concentrated to improve wages and to reduce hours of work; and not only that: it is trying also to secure a share in the administration or management of the industries.

‘Of course, the present economic distress has caused a great deal of suffer-

ing among members of the working class and has produced a large amount of unemployment—of about a million workers, though the Government statistics show only 380,000. Owing to the family system, the unemployed workers return to the fields, live with their families; it is this, apparently, that lessens their number in the official statistics.

‘The Japanese capitalists, like those of Western countries, employ cheap labour as much as they can. They can easily employ cheaper labour in China or employ Koreans in construction work and in the factories. Of course, Japanese trade unionists object to the use of Koreans. These are Japanese subjects; but the cheaper labour of Koreans has been a great obstacle to the improvement of employment among the Japanese workers. The Government is spending its revenue on the relief of unemployment through road construction and improvement of sanitary conditions; but practically one-half of the workers thus aided are Koreans.

‘At the same time, the Japanese capitalists invest their capital in Shanghai, and elsewhere in China, to use Chinese labour instead of using Japanese workers who require higher wages. This cheap labour in the neighbouring country inclines the capitalists to become imperialistic in their tendencies and also to export capital, thus lessening the accumulation of capital needed for further domestic industrial development.

‘For instance, if you look over the factories of raw silk in Shanghai you will find a great difference in the working conditions compared with those in Japan. In the Chinese silk factory there are lines of cases behind which there are stretches of benches, three feet wide: here the workers are living and eating; whereas in the Japanese silk factories there are dormitories for the working girls under the direct supervision of the Government, under the Factory Act. There is, therefore, a great difference in the cost of production.

‘The complaint of low wages in Japan made in the Western countries is the same complaint which the Japanese working class is making against the cheap labour in our neighbouring country.’

Still the question was not settled to what extent lower wages and worse working conditions really lower the cost of production. There were some who believed that, in the absence of an accurate basis of comparison—taking into account all the relevant factors—employers were often deceiving themselves in estimating savings in cost. A representative of the International Labour Office—who unfortunately confused some of his hearers by using the term ‘standard of living’ as synonymous with ‘real wage’—gave the following analysis of the latter as a basis for comparison:

‘It includes three main elements: first, the money wage; second, provision in kind supplementary to the money wage—for example, board and lodging, or food alone, for certain categories of workers; third, certain state or municipal services—for example, housing, insurance contributions, social, educational, and health services.

'These three elements, taken together, constitute the standard of living of the workers in a given community. In addition it is necessary, however, to take into account the conditions of work of the particular worker: his hours of labour, and the health and sanitary conditions of the factory in which he works. If these are unfavourable they tend to lower his general standard of living.

'The second question is, Can we measure standards of living? If we take each of the elements we find that it is possible to get a fair approximation to measurement in each case. Statistics in the principal industrial countries enable us to obtain comparable index numbers, not only of nominal wages but also of real wages. Family budget inquiries throw an important light on the food actually consumed by the working classes in the areas to which they relate. Exact information with regard to state and municipal services on a comparable basis is more difficult to get, but reports on the subject have been prepared by the I.L.O.

'Finally, it is possible to obtain accurate and, on the whole, comparable information with regard to the main conditions of work. It must not, however, be overlooked that certain factors enter into the standard of living which escape exact computation. These concern, for example, the climate in which the work is carried on, and the services rendered by the wife in the management of the home, preparation of food, and the like. There is also a very important subjective and psychological aspect and an area of choice or caprice entering into the satisfaction which may be obtained from a given standard of living which is not susceptible of scientific measurement.'

On the basis of these considerations, the speaker showed that, according to the information possessed by the I.L.O., *real* wages have fallen considerably in the United States since 1927, whereas in Great Britain, in spite of a decrease of wage rates, they have risen because of reduced prices—the ratios being as follows:

	<i>Great Britain</i>		<i>United States</i>	
	<i>1927</i>	<i>1932</i>	<i>1927</i>	<i>1932</i>
Nominal wages . . .	100	95	100	60
Real wages . . .	100	110	100	80

A Japanese member, on another occasion, in a similar connexion, drew attention to the advantage which mobility of labour gives to workers in meeting changes in wage and price levels. He stated it as one advantage which Japanese industries have in competition with British industries, that their workers, still largely having their homes or associations in country districts, can offer their services in places where labour is wanted instead of being at the mercy of local employers. The fact that they can also work on the farm offsets the disadvantage of this greater concentration of competition for jobs. He also referred to the fact that the recent fall in the cost of living—particularly in the price

of rice—had increased the competitive advantage of Japanese industry without further reducing the relatively low real incomes of the workers. This consideration, among others, somewhat discounted a rather startling comparison of British and Japanese wages that had just been given by a British member who quoted the Japanese figures from a publication of the Tokyo Chamber of Commerce:

	<i>Great Britain</i>	<i>Japan</i>
Silk and rayon workers	32s.	7s. 4d.
	(48-hour week)	(60-hour week)
Cotton operatives	45s. to 60s.	6s. 4d.
Hosiery knitters	80s.	17s. 1d.
Silk weavers	45s.	11s. 4d.

The following comparative figures were quoted as having been supplied for workers in the cotton industry by the British Consul-General in Osaka:

Spinners	75s. 6d.	14s. 7d.
Weavers	34s.	8s. 3d.
Sorters	34s.	8s. 9d.
Bleachers	58s.	12s. 8d.

It was recognized, of course, that by themselves—that is, without regard to other costs of production and the relative productivity of the workers—such comparisons of money wages as these throw only a very uncertain light on the relative competitive strength of the industry in the two countries and may actually be misleading. (For example, the Japanese wage figures seem to include no equivalent for the value of board and lodging provided by the employer.)

EFFECTS OF DIFFERENCES IN LABOUR CONDITIONS

Much diversity of opinion appeared when the question was raised how exactly two different wage levels in different countries affect each other. One reason for this was that some members were considering only competition in a common neutral market, without allowing for differences in other cost factors, while other members were concerned also with the mutual effect of different wage levels where there is no such direct competition.

A physicist would have been astonished at the quite general charge that the lower labour cost always wins out and either destroys or draws into its own orbit the industry of the competing country with higher standards. It was even maintained—though with no show of evidence—that immigrants with higher standards of living, unless they can contribute skills of a special kind for which there is a remunerative market,

will inevitably sink to the lower levels of the people among whom they settle. On the other hand, it was freely admitted that, quite irrespective of any special ability or productivity they might bring with them, emigrants returned from high-wage countries often have great influence in levelling up the labour conditions of the community to which they return. This was reported from China and from the Philippines as a common occurrence.

'The East starts in industry on levels that the West has left behind' was another generalization frequently repeated without proof—and even in contradiction of the evidence. Industrial labour conditions in the Far East are not similar to those which ruled in Great Britain or on the continent of Europe at the beginning of the industrial era. Even in China, machine industry is not slowly emerging from hand crafts with a traditional organization hard to eliminate; but the more important of the new industries, whether established by Chinese or foreign capital, often appear full-fledged upon the scene. Thus of 1,666 factories surveyed in Shanghai by the China Institute of Economic and Statistical Research¹ less than one-half are organized in single proprietorship, and one-fifth are limited liability companies. A report made for the same institute on the silk reeling industry in Shanghai² shows that in this important industry 57 out of 70 firms are organized as partnerships, and more than a third have a capital of over 40,000 taels. The filatures are to a large extent capitalized by native banks. In yet another data paper the statement is made that in the cotton industry it requires on the average a capital and reserve of \$4,335,885 per mill, or \$102.43 per spindle. Taking Chinese-owned mills only, the average capitalization is \$1,836,911 and \$52.56 per spindle.³ That is, although undercapitalized by Western standards, these enterprises are of modern dimensions. These are merely examples to show that industrialization, even in China, is starting considerably higher up in the scale of organization than did the early industries in the West. Indeed, the complaint is made that the rise of large-scale manufacture is responsible for the decline of China's rural industries:

'The disappearance of rural industries in China, under modern industrializing influence of the Western trading nations, cannot be denied. . . . Under the competitive influence, first of foreign machine-spun yarn and then of native machine-spun yarn, the hand-spun yarn in China has almost been wiped out of existence, and the hand-spinning of cotton yarn, formerly a wide-

¹ D. K. Lieu, *A Preliminary Report on Shanghai Industrialization*, China Council, 1933.

² D. K. Lieu, *The Silk Reeling Industry in Shanghai*, China Council, 1933.

³ C. L. Nieh, *China's Industrial Development: Its Problems and Prospects*, China Council, 1933.

spread domestic industry all over the rural districts, has now become almost extinct.¹

Again, while there has been a constant increase, between 1895 and 1929 (but not since 1929), of the silk exports of Chinese steam filatures, the export of hand-reeled silk has declined to less than one-third of its former volume.² Native flour milling, formerly a rural industry, has declined in the face of machine-milled flour from both home and foreign mills.³ While other rural industries have been displaced by foreign imports, China's requirements of cotton yarn and flour are still for the most part met by home production—but this production is carried on in large mills with steam-driven machinery.

The purpose of this aside is to show that the competition of industries carried on at a lower level of labour standards is endangering the standards of more highly developed industrial countries, not because they are, but precisely because they are *not* 'medieval', but are using cheap labour with relatively modern and efficient methods of production. As one member phrased it,

'If the higher standards in the Western world are to be maintained, the Eastern countries cannot be permitted to raise their standards. For if they do they endanger ours.'

To which a British member, well acquainted with industrial conditions in the Far East, added:

'Japanese standards of living are rising, and this is the real cause of her success. People who live below a proper subsistence level cannot produce adequately. A higher standard raises productivity.'

POSSIBILITIES OF ASSIMILATING LABOUR CONDITIONS

In several round tables the question was raised whether, with the differences which climate and tradition impose upon working conditions in countries that now begin to enter into industrial competition, any possibility of equalization of costs of production could be found on the basis of securing equalization of wages and working conditions. The comparison between international competition and competition between two sections of the same country is fallacious, was one of the replies: the requirements of labour in the first case are necessarily different, while in the latter, assuming the workers to share the same cultural traditions and to be of the same sex, they are much more similar to start with and can be further assimilated through organization and education. Although in a country as large as the United States traditional differ-

¹ H. D. Fong, *Rural Industries in China*, China Council, 1933, p. 13. See Document III, p. 299 *et seq.*

² *Ibid.*, p. 14.

³ *Ibid.*, p. 17.

ences in standards of living still are a stumbling-block to the effective organization of the workers, it is possible to standardize minimum conditions of employment, either through Federal legislation or through the voluntary adoption of codes, such as is being attempted under the National Recovery Act. Reference was made also to the earlier minimum-wage legislation in Great Britain, which, one speaker contended, had been a first step towards raising the general level of consuming power without which there can be no effective organization of labour.

On the other hand, descriptions of national efforts to establish minimum conditions also served to elucidate administrative difficulties which would be even greater in international efforts to the same end. Mention was made of the repeated failure of movements to secure Federal action to suppress child labour in the United States, owing to the autonomy of states in the matter of labour legislation. While many devices were being used to overcome this constitutional handicap in the enforcement of the new codes under the National Recovery Act, the old problem would reappear, American members feared, on the expiration of that Act in 1935. More generally, could the northern states permanently hold to a common level of minimum standards the southern states with their larger reservoirs of labour unaccustomed to many of the comforts that have become necessities in the minds of their northern fellow-citizens?

Similarly, the introduction and enforcement of higher labour standards in China was seen as almost an impossible task even if the political unity of that country under a progressive central government were assured. As an aggravating circumstance, the complication which extraterritoriality brings to uniform enforcement of the labour laws was again brought out.¹ The foreign industrial employers of Shanghai, it was reported, are now in negotiation with the National Government for an agreement under which at least the most urgent sections of the Factory Act will be voluntarily enforced by the foreign owners, who are not subject to Chinese jurisdiction, with a uniform system of factory inspection under the general control of the Chinese Ministry of Industry.² How much, quite apart from this special difficulty, the practical control of the Government over labour conditions is impeded by the general poverty of the population and the resulting weakness of labour organization, is described in several of the data papers already named.³

¹ See *Problems of the Pacific, 1931*, Chapter V.

² The I.P.R. was congratulated by a Chinese member for having contributed, through its understanding discussion of this subject at the Shanghai Conference, in 1931, towards this co-operative relationship between the two parties.

³ Notably in C. L. Nieh, *China's Industrial Development: Its Problems and Prospects*, China Council, 1933.

The difficulty of securing national co-ordination in efforts to improve labour conditions is experienced in other countries as well. One of the data papers illustrates this in relation to the relief of unemployment.

‘It is the universal experience in almost every country that several departments of the central government undertake public works without any deliberate co-operation in determining the time of execution, and that there are many local authorities which are very likely to inaugurate public improvements whenever the necessary funds become available, and curtail the work as soon as a depression arrives. . . . The situation becomes more serious when we realize that the aggregate capital expenditure controlled by local or municipal bodies far exceeds that of a central government. . . .’¹

The paper goes on to state that, in spite of the world depression, so far no international action has been directed towards the co-ordination of national schemes for relieving unemployment.

‘The present world-wide depression has shown that isolated national efforts are not sufficient for coping with serious unemployment.’ However, the International Labour Office already has studied possibilities of securing concerted international action in the promotion of public works; and the subject is to be further explored at the next session of the International Labour Conference.²

While the round tables at Banff did not take up the subject of unemployment relief except in its broadest aspects, they saw in the circumstances of the world depression additional reasons why acute distress in any part of the Pacific area must be regarded as a condition affecting all the countries that have economic relations with it. Though pronouncements of humanitarian sentiments were at a discount, the interdependence of the nations in their security and welfare had been so clearly brought out by previous discussions that the proposal to examine possible ways of ‘cleaning out the slum areas of the international community’ through international action fell upon willing ears.

What, then, are the possibilities of bringing international influences to bear upon countries whose cost of production is kept unduly low by standards of labour remuneration that fall short of what in industrially more advanced countries are regarded as minimum requirements?

Pressure of world opinion was seen as one such influence—generally regarded as weak and ineffective, yet not to be altogether overlooked, according to some of the members who have observed the results of such pressure in an awakened public conscience and greater resistance to intolerable conditions on the part of the workers. Such influence is

¹ *Unemployment and Public Works Policies in Pacific Countries*, Memorandum communicated by the International Labour Office, Geneva, 1933, p. 25.

² *Ibid.*, p. 29.

most effective, of course, between neighbouring countries ; and the principal testimony came from Canadian members who had watched the repercussions on the industrial life of the Dominion of the effort then going on in the United States to establish minimum standards through codes. A representative of organized labour stated that one element was the fear of Canadian industries producing commodities for the American markets that they would be penalized by higher tariff rates unless they conformed in their labour conditions to the minimum requirements of the American codes. Japan, always sensitive to world opinion, had gone farther in the introduction of modern labour laws, according to one speaker, than was forced upon the Government by the demands of organized labour.

'The development of Japanese labour legislation', reports the International Labour Office, 'was much influenced by the First Session of the International Labour Conference held at Washington in 1919. This conference came at a time when most Japanese industries had been working at high pressure during the war years and public attention had been to some extent directed to the risks of industrial employment by the startling rise in the number of accidents recorded. The conference aroused an enormous amount of interest in Japan in the labour problem itself as well as in the legislation which the adoption of the Washington Draft Conventions would involve.'¹

International trade unionism, more concentrated in its influence, has not, except on the North American Continent, so far created instruments for common action. Because of the great dissimilarity of labour conditions in the Pacific area, organized labour in its industrialized sections is disposed more towards an extreme form of nationalism than towards international co-operation. An American trade unionist referred to the fishing industry as an example of the impossibility of levelling up working conditions internationally through common agreement. Although workers in the Alaskan salmon fisheries are sufficiently organized to have wages, hours, and working conditions regulated by an agreement with their employers, the union has been obliged, largely in its opinion, because of foreign competition, voluntarily to accept a reduction of 33 per cent. from their wages, two years before the present agreement has run out.

Lastly, there is the possibility of exercising pressure through international agreements. That this was the only effective procedure was contended by a number of speakers. Reference has already been made to the influence on Japanese labour conditions of the Washington Hours Convention of 1919, although it did not succeed in its purpose of setting up definite agreements between the participant states. The same report

¹ *Industrial Labour in Japan*, p. 139.

also states at many points that, as one of the eight states of chief industrial importance that are entitled to permanent representation on the Governing Body of the International Labour Office, Japan has co-operated to a remarkable degree to bring its labour law as closely as immediate circumstances allowed to the provisions contained in the international conventions prepared by that body.

‘Not only have the conventions ratified by Japan exercised a formative influence on her labour legislation, but provisions of conventions which it has not yet been considered possible to ratify have been embodied in Japanese law. The field of application of the factory legislation has been progressively widened, and the detailed provisions of both factory and mining laws and regulations have been elaborated and extended. . . .

‘It is in regard to the protection of women and juvenile workers that Japanese legislation has gone furthest in the direction of the standards laid down in the International Conventions. . . .

‘In two essential respects the International Labour Organization has been a powerful factor on the side of progress: in providing, as it were, a nucleus around which the trade union movement has been able to grow and consolidate, and in furnishing by its Conventions some part of the impetus and direction of the evolution of labour legislation in Japan.’¹

As stated elsewhere in the report, the influence of international pressure on Japanese labour conditions has been direct and most effective in regard to protective labour legislation, but only indirect and much less effective in regard to wages and hours which are settled not by law but by bargaining between capital and only partially organized labour. While the round tables were interested to hear of the progress made, not only in Japan but also in other Pacific countries, in extending government control over the conditions under which work is done in shops and factories, the main focus of attention was the great discrepancy between the wages paid, a much more significant item in the relative costs of production for countries with competing industries. Members discussed whether any practical procedure could be developed to affect that basic source of international discord. A representative of the International Labour Office argued that not only the protection of labour but also the improvement of standards of living is implicitly recognized as a matter of international concern in the Covenant of the League of Nations and again in the Constitution of the International Labour Organization. Under Article 23 (a) of the former, the Members of the League are pledged to

‘endeavour to secure and maintain fair and humane conditions of labour for men, women, and children, both in their own countries and in all countries

¹ *Industrial Labour in Japan*, pp. 373 and 378.

to which their commercial and industrial relations extend, and for that purpose will establish and maintain the necessary international organizations.'

The Preamble to Part XIII of the Treaty of Versailles contains a similar declaration.

These commitments, the speaker held, clearly made it incumbent upon the signers of the Versailles Treaty and their creation, the International Labour Office, as well as the League itself, to concern themselves not only with protective labour legislation but also with standards of living. But is it possible to go farther in this matter than to collect information and make reports—leaving it to individual governments to negotiate for such international agreements concerning basic labour conditions as they may desire to bring about? Several examples were quoted of proposals for multilateral or bilateral agreements of this sort that have lately been urged by influential bodies. Thus, a section of the British Labour party was reported to be sponsoring legislation to prohibit trade with countries whose labour conditions fall below a given minimum. At the World Economic Conference in London, a Cuban delegate had introduced a proposal, the main provisions of which relating to the subject under discussion read:

'Article 9: Any State which may have adopted for its industry the system of the Eight Hour Day may increase the maximum duties provided for in the above bases by an additional ten per cent. ad valorem.

'Article 10: Any State which may have established a minimum wage equivalent to one gold dollar per day, may increase the maximum duties of its tariff by an additional fifteen per cent. ad valorem.

'If a State should not have established by law a minimum wage equivalent to one gold dollar per day, but in practice should pay said minimum wage, it may submit the necessary proofs to . . . tribunal.'

Other sections provide for a method of adjudication and authorizing these proposed premiums on a minimum wage and a maximum number of working hours in international trade relations. Naturally, so arbitrary a requirement, and one which proposes to raise rather than lower customs barriers, did not find approval among the members of the round tables. There was some doubt whether preferential treatment in tariff-making had ever been accorded to countries on the basis of comparative labour conditions; but it was thought by some that the Ottawa Agreement embodied that principle in practice. Negotiations of such agreements on an inclusive international basis was considered rather Utopian; as one member phrased it: 'The world is not ready for all-around collective agreements.' A Japanese member objected that bilateral agreements of the Ottawa kind accentuate the depressive effect of tariffs on labour conditions in that they make it impossible for industrially less

developed countries to find markets for their products and, consequently, perpetuate or at least prolong the prevalence of unsatisfactory labour conditions in such countries.

An Australian member, in another session, expressed the opinion that tariffs cannot be used to raise standards of living for the simple reason that they are made—and therefore international tariff negotiations conducted also—in the interest of specific producers, with no regard to their general effect on national standards of living. Obviously, one of the simplest ways to raise wages, other members concurred, was to abolish duties on commodities that can never be produced domestically—such as tea in Western countries—and enter only indirectly into competition with domestic industries, or not at all. But then again, it was objected, such duties are levied mainly for the purpose of national revenue which, were they dropped, would have to be obtained in some other way, placing an equivalent burden on the public.

A British member questioned the whole assumption that it is possible for a country with high wages permanently to maintain its wage standards by tariff barriers. The only thing that can guarantee them, he held, is a rise of the standards in competing countries: that is, when a tariff has the effect of halting the effort of such a country as Japan to raise its standards, the resulting sharper competition of that country, even though it may be in a different field and indirect, will only force down standards in other countries, and so eventually break through the defences.

In spite of these difficulties and conflicting opinions, serious attention was given to a suggestion made by an American member¹ that by reversing the procedure advocated by the Cuban delegate to the London Conference—that is by stipulating in tariff agreements a reduction in favour of imports from countries observing certain minimum conditions of labour—and by introducing such provision into preferential tariff agreements rather than into an inclusive international treaty, the kernel of that proposal might perhaps be given practical form. He did not claim that the same arbitrary minimum wage or the same arbitrary maximum working day could be introduced into every such agreement, nor that exactly the same provisions would have to be applied to agreements regulating the trade relations between one country and several others; but he asked for an unprejudiced examination of the suggestion that in agreements governing the respective tariffs between two or more countries it might well be possible to adopt certain fundamental requirements as regards the humane treatment of labour which would lessen

¹ Since published in tentative form: James T. Shotwell, 'The N.R.A. and the Tariff', *New York Herald-Tribune*, September 17, 1933.

that part of the competition between them which is due to extreme differences in their prevalent conditions of labour. He said:

‘Countries might agree to have reciprocal tariff rates—lower than the general rates—on goods made under favourable labour conditions. That would mean that, in proportion as an industry or a group of industries raised real wages or reduced hours or bettered working conditions, the products of these industries would receive preferential treatment. On the other hand, industries which continued to rest on the exploitation of labour or sweated wages and excessive hours would be penalized.

‘The doctrine of reducing tariff rates by improving the standard of living carries a step further the basic idea of the International Labour Organization and would tend to eliminate labour as an element of international competition. . . . This formula has apparently never received adequate examination on a large international scale; and it is not suggested as a panacea for the economic ills of maladjustment beyond the relatively limited area of an experiment in those fields which permit comparable measurements in technique.’

He proceeded to point out that few governments are as yet prepared to measure accurately real as distinct from nominal wages, but that distinct progress, not only in establishing such facts for different countries but also in determining indices for international comparison, had been made by the International Labour Organization, whose findings and methods might be adopted as a natural basis for such agreements. That organization was equipped also to undertake such functions as these agreements might contain for observing the enforcement of minimum requirements in countries that had entered into such mutual obligations. Already the I.L.O. was accepted as the arbiter in this respect in the fulfilment of other obligations imposed upon nations by international treaties, at least to the extent that reports of commissions of inquiry sent out by it to observe the fulfilment of such obligations are accepted as authoritative by governments and by representative organizations of capital and labour.

The chief flaw seen in this suggestion was that, with the present dominance of industrial interests in domestic tariff-making, and the corresponding inability of the consumers to make their influence felt, any treaties providing for an automatic reduction in tariff rates as a compensation for improvements in the labour conditions of other countries would become only yet another argument for raising the basic tariff rates. Moreover, while by some means such as this some advantage in certain markets might be given to the countries that conform to these conditions, the resulting addition to the cost of production might close other markets to them. Unfortunately, no data were available

from which it might have been possible to compute the degree of these respective advantages and disadvantages. The objections raised seemed sound to many of the members; but others felt that the relation between cost of labour and commodity prices was not as direct as the objectors assumed. In practice it had not been found that the introduction of modest minimum requirements as to labour conditions, whether through legislation or otherwise, had actually handicapped the industries of any country very seriously in international competition while other cost factors remained constant. Only a sudden much more considerable change could have that effect.

In short, while no conclusive agreements emerged from the round tables that gave thought to this subject, it was seen that the difficulties in the way of using international agreement as a means to raise labour conditions are not purely economic. On the one hand, the lack of balance in the political effectiveness of producers and consumers makes for tariff policies which do insufficient justice to the part which a low price level plays in the maintenance of a high standard of living. On the other, the demand that exploitation of workers and the impoverishment of whole populations through unregulated conditions of work shall cease in the interest of humanity cannot be squared with the desire for the continuance of wide discrepancies in the standards of living in different parts of the world: international measures aiming to set countries that have but lately come into the community of the industrial world on the first step of the ladder that leads towards a modern civilization can be defended only on ethical grounds, but not on the ground of the self-interest of the nations with a firmer footing in that civilization. Almost inevitably rising standards of labour in the newer industrial countries, through their effect on productivity, will threaten the established standards in the older ones. There is no permanent half-way stand between imperialism and world democracy; though some nations may adopt 'autarchic' policies and isolate themselves for long periods.

CHAPTER V

JAPANESE EXPANSION

THE REALIST, so called, sees the problems of economic conflict and control in much simpler terms than those used in this book. There were a few at the Banff round tables who looked upon most of the evidences of conflict in the Pacific area that were described as no more than symptoms of a single situation: the economic and political expansion of Japan in a world that is steadily withdrawing itself into a series of isolated economic islands. Holding such views, they were impatient with the tedious analysis of historical antecedents and underlying economic tendencies, and with attempts to relate the Japanese problem to analogous questions in other parts of the Pacific. The real matters for discussion thus seemed to them to be not conflict over markets, but Japanese competition; not conflict over raw materials, but Japanese control in Manchuria; not outlets for population, but Japan's population problem.

Previous chapters of this volume will have shown the dangers in this over-simplified conception of the international economic problems of the Pacific area. If the present chapter deals more exclusively with Japan's economic dilemma, it is not because there was in fact a round-table debate specifically devoted to that topic, but merely because it happens to be more convenient to bring together points of discussion from several round tables under this single geographical heading. This procedure has the advantage that it provides concrete illustrations of some of the economic tendencies discussed so far in more general terms. Japan serves better, perhaps, than any other Pacific country, as a visible manifestation of the economic conflicts and the types of economic control which the conference members discussed. Whether it is a question of international conflict over food-supplies, markets, population outlets, subsidized competition, or commodity control, Japan furnishes a wealth of examples. In the political field, too, the 'anomalies' of the Pacific area discussed in the introductory section, namely the frequent use of boycott in international intercourse, and the imperfect functioning of some of the customary channels of diplomatic machinery, are well exemplified in Japan's relations with China and India.

Even in the more immediate realm of present-day international controversies, Japan claims a great deal of public attention. Members of the Banff Conference came there with a recollection of newspaper accounts from many countries about the alleged menace of unfair

Japanese competition. With the continued decline in the exchange value of the yen, Japanese goods had been subjected by several governments to special dumping duties. The long-smouldering dispute between the Indian and Japanese cotton manufacturers had burst into flame by the middle of 1933, when the Japanese cotton spinners took advantage of low American cotton prices to buy increased raw cotton supplies from the United States and to boycott Indian cotton in retaliation for the action of the Indian Government in steadily raising the tariff on imports of Japanese cotton goods to the almost prohibitive level of 75 per cent. During the Banff meeting, newspapers carried accounts of the trade negotiations at Simla which later were to result in a new barter agreement between India and Japan and, with it, an end to the boycott. The Indian dispute was only one aspect of the process through which Japan rose to be the cotton king in world trade, usurping the time-honoured place of Lancashire; for after the middle of 1932 Japanese exports of cotton-piece goods for the first time exceeded those of Great Britain in quantity. The growth in the physical volume of exports was, moreover, only a part of a general increase in Japanese industrial production—a most remarkable advance when it is remembered that it occurred in the face of a continuing boycott in southern China and mounting barriers to trade elsewhere. Meantime, while the Japanese thrust into world markets increased in intensity, there was a small but steady flow of investment and even of population from Japan to Manchuria under its Tokyo-supported administration, as the Japanese authorities pushed on with the business of unifying the old Manchurian railway system, extending new lines, starving the Chinese Eastern line out of business, reorganizing the numerous currencies, developing trade, and generally consolidating a new continental empire.

THE POPULATION PROBLEM

In Japan, as elsewhere, a large, dense, rapidly expanding population is not necessarily a problem in itself. The Soviet Union, for example, has a much larger population with an annual increase greater (both in rate and in absolute numbers) than that of Japan. Java, with its 40 millions crowded in a small mountainous island, has a greater density of population than Japan and, at the same time, fewer industrial resources to compensate for scarcity of land. Population pressure is a relative concept. It gains meaning only when considered in reference to some other social facts, such as habits of consumption, distribution of national income, technological development, and the like. If population growth is a problem in Japan, this is not simply because of the amount or the rate of the increase, but because, as a result of education, the Japanese

people will not be content with old standards of physical and mental satisfaction. The question is not whether existing resources will maintain the additional population at existing planes of living, but whether they will permit the same rate of improvement in planes of living as in the past.

The general facts of Japan's population are well known. Its numbers have more than doubled in the sixty-five years since the modern era began, reaching a probable total of 67 millions by the end of 1933. With a birth-rate which, in spite of declines, remains at the high figure of 32 per thousand, and a more rapidly declining death-rate (from 23.4 per thousand in 1920 to 17.7 in 1932), the country must now provide for an annual increment of about a million people. Indeed, the net increase for 1932 reached the record total of approximately 1,007,900.

What is less well known, although the point was brought out in the 1927 and 1929 Conferences of the Institute, is that important changes are taking place in the age-composition of the Japanese population. It is thus certain that the rate of increase will be greatly modified within a generation. Even without a change in the fecundity of Japanese women or a further reduction of the birth-rate through delayed marriage or the more widespread practice of contraception, there will be a greater number of old people and a slowing up of the annual rate of increase. This fact deserves emphasis, for the belief is widely held (it was expressed at the Banff Conference) that there is something unique about Japanese population growth. There is little to support this view. On the contrary, as an American student of the question pointed out in a round-table discussion, there is much evidence to show that Japan is passing through precisely the same population cycle as the countries of western Europe. Its cycle is about thirty years behind the European cycle, so that Japan stands to-day at about the same stage as did Germany at the end of the last century. Japanese members without exception agreed with this interpretation.

'I think', said one Japanese, 'that the progress of population in Japan has followed a very natural course. We have passed through essentially the same experiences as other nations. The steady increase has been the result of our having given up our former self-contained economy—to our industrialization and foreign trade, in short. But we believe that the same forces of capitalist development which have produced the increase will before many decades produce a reaction. By the working of these forces we expect before long—some students say about thirty years—a perceptible stabilization in the population as the annual increment diminishes and disappears.'

Thanks to the recent investigations of one of the Japanese members, it was possible at Banff to forecast these trends in the composition of

Japan's population with more certainty than formerly. In a data paper submitted by the Japan Council,¹ it is estimated that the total population will reach about 72 millions by 1940 and 78 or 80 millions by 1950, after which the number is likely to remain almost stationary. After 1955 the annual number of births will probably decrease. The theoretical limit beyond which the population cannot go even if fecundity and infant mortality rates do not decline, is about 94 millions. All the evidence, to-day, however, indicates that fertility of women in the reproductive age-group is declining, for despite the increase in the numbers of this group the number of children has not increased proportionately during the past twelve years. It is consequently unlikely that this limit will ever be reached.

To know that the total population will only continue to increase for another generation is scant consolation. The immediate problem faced by Japanese leaders is to provide for the 10 millions who will have been added to the adult population by 1955. There is no way of avoiding this question. The boys² who will form the working population are already born, and will come into the labour market each year at the rate of 200,000 or 250,000 in excess of the older men who withdraw. Birth control will not control this part of the population problem. Nor is it simply a problem of keeping these additional souls alive. What Japan must do is find a way to absorb them without sacrificing any of the improvements she hopes to effect in her present standards of comfort.

ESTIMATED POPULATION OF JAPAN BY AGE GROUPS³
(in thousands)

<i>Year</i>	<i>0-14</i>	<i>15-59</i>	<i>60 and over</i>	<i>Total</i>
1920	20,416	30,949	4,597	55,963
1925	21,924	33,223	4,589	59,736
1930	23,502	35,827	4,737	64,067
1935	25,058	37,980	5,068	68,107
1940	25,799	40,399	5,652	71,850
1945	25,830	43,306	6,130	75,267
1950	25,830	45,966	6,568	78,364

¹ T. Uyeda, *Future of Japanese Population*. A condensed version of this study appeared in *Pacific Affairs* (June-July, 1933). The data paper, however, gives the results and methods of the work in much greater detail.

² It is assumed that girls in the working population will be about balanced by the number of youths (students, soldiers, &c.) whose entry into employment is delayed beyond the age of 15.

³ Uyeda, *op. cit.*

POSSIBILITIES OF MIGRATION

It came as a surprise to many new members of the conference to discover that their Japanese colleagues without exception dismissed the idea that either internal redistribution of population or emigration abroad offered any solution to the population problem. For that conviction has been held by most of the responsible Japanese authorities for many years past. But what is often overlooked is that there is a difference between saying that migration is not a real solution and saying that it is of no use at all. Opiates will not cure a disease, but they have a real value nevertheless. And so, while no thinking Japanese pretends that migration will take care of the million souls added each year to the population, there are many, as the discussions at Banff and earlier conferences have shown, who hold that migration is a valuable palliative to the disease of overpopulation. Besides the psychological relief that opportunities for migration provide, there are certain minor economic benefits that may accrue from it. Migration, even if not for permanent settlement abroad, may stimulate a flow of trade and investment and increase the incomes of certain districts at home by reason of remittances from the emigrants. Only if qualifications of this nature are kept in mind can one properly weigh the significance of remarks by Japanese members on the possibilities of migration.

Redistribution within Japan.

Within Japan Proper, it was said, there are admittedly a few areas still left where colonization is possible. They are limited almost entirely to the northern districts, mainly in the island of Hokkaido. Here, according to the best agriculturalists in Japan, there is room for perhaps two millions, at most. Even ignoring the important fact that climatic disadvantages alone make these districts unattractive to farmers from the crowded regions of southern Japan, one must remember that it requires a heavy capital outlay to promote a settlement scheme of any significant scope. For rice farming in particular, it is an exceedingly expensive business to prepare unimproved land hitherto used for grazing, if used at all. Technical improvements, especially the further development of cheap electric power, as another Japanese pointed out, will do a good deal to overcome these handicaps. Granted that only the growing of food could be profitable—and that meant rice—it was for a long time difficult to cultivate much hilly land because the necessary irrigation was impossible or too expensive. But now, with cheaper electric power for pumping, the cultivation limits even for rice have been extended and will be pushed still farther. Improvements in water-supply will also enhance the value of the northern plains now sparsely

settled. Scientific research, likewise, will continue to extend the intensive margin of cultivation, by the development of cheaper and more effective fertilizers, better seed selection, and more economical methods of farming. The same general considerations apply to Korea and Formosa, as regards food-supply. By a vigorous and probably costly programme of development in these colonies, Japan has succeeded in making herself practically self-sufficient in rice and sugar. With the protection of a heavy tariff she aims at doing, before long, the same thing for wheat. But although an increased supply of food from the colonies is in some measure a substitute for emigration from Japan, experience has shown that the prospects for actual settlement of Japanese farmers in either Korea or Formosa are negligible. Indeed, with her rather higher standards of remuneration and comfort, Japan faces a considerable problem in controlling the inflow of low-paid Korean labour. As the Japanese member showed, the registered number of unemployed workers at the beginning of the depression (about 350,000 in 1930) was almost the same as the number of Koreans working in Japan Proper. The inflow would be greater but for severe administrative restrictions. Without such barriers, it is believed, there would be a considerable volume of immigration, not only from Korea and Formosa but also from the Philippines and parts of China.

Thus the relief that can be expected from population redistribution within Japan or within the Empire were seen to be slight. At the most optimistic estimate, it will hardly take care of more than two or three millions over the next decade. It can certainly not give relief for more than a small fraction of the annual population increase. If economic factors are given full weight, the prospects are still less hopeful. Already Japan pays a high price in the form of tariffs and the rice control subsidies for her self-sufficiency in certain staple foods. These costs may be socially justified by the need of protecting her farming population from the fate of the English agricultural workers during the Industrial Revolution. Some members also saw a need for the protection of rice production in the fact that the native rice which Japanese taste demands is not produced outside the Empire.¹ Nevertheless, the costs exist and remain a considerable tax on the income of the Japanese consumer. The question which Japanese leaders must always ask, is not whether empty land is still available for settlement—for people with such standards of comfort and such specialized habits of agriculture will not automatically flow into a vacuum as so much popular Western opinion supposes. The question is: At what cost (both immediate and ultimate) can further internal colonization succeed, and at what cost could this part of the

¹ See S. Tobata, *Control of the Price of Rice*, Japan Council, 1933, p. 1.

population be equally well provided for by other methods, such as intensified industrial development?

Overseas Emigration.

What was said of economic factors in relation to redistribution, according to Japanese members, applies with even greater force to emigration abroad. The once spontaneous flow of labour from Japan, unaided by government subsidies or labour contracts, practically disappeared after the War. What emigration movement now remains is a matter of careful and costly organization, involving the Government in subsidies to steamship lines and emigration guilds. Since the doors have been closed to Japanese workers in California, British Columbia, Hawaii, Australia, and New Zealand, the only significant streams of migration are to Brazil—which has a considerable Japanese population in São Paulo and a smaller group in Amazonas—and a small trickle to Peru. Brazil is the only country where there is a systematic colonization scheme for Japanese farmers and their families. Elsewhere, what small amount of Japanese migration there is comprises principally tradesmen and small merchants. The following remarks by a member at one of the round tables gives a representative Japanese opinion on the whole subject.

‘Emigration, in my opinion, is an insignificant factor in solving the population problem. For twenty years Brazil has been the main country to which emigration has been encouraged. The number going has increased since 1926, and last year there were about 15,000, the highest figure. There are now some 150,000 Japanese living in Brazil, chiefly in the state of São Paulo.

‘There is also some emigration to Peru and to the Philippines, but it amounted to less than 300 last year, which is less than 2 per cent. of those going to Brazil, where our Government will send only married farmers. I do not know what our future policy will be. With the exception of Manchuria, to which 50,000 Japanese of various classes have emigrated in the last two years under rather special circumstances, Brazil is the only land to which Japanese are sent at present.

‘The question may be asked whether, if Brazil’s willingness to accept emigrants were boundless, Japan could send them in a number sufficient to solve the population question. The answer must be, No. The transport facilities alone would render this impossible. Last year, sending 15,000 emigrants to Brazil, seventeen vessels were used, about half of them making two voyages. The gross tonnage of the vessels was from 7,300 to 10,000, and they carried an average number of 882 steerage passengers. Even if all steerage room were filled, we could not send more than 15,000 a year. The return freight on exports from Brazil to Japan does not exceed 100,000 yen: and it seems probable that the limit of voyages that can be undertaken economically at present has been reached.

'One reason for the difficulty of Japanese emigration is the geographic remoteness of Brazil. Its position makes it favourable for the southern European countries. Spanish, Portuguese, and Italian labourers, for example, after finishing their own agricultural work, go to South America where, owing to opposite seasonal conditions, they can arrive before harvest time for coffee in Brazil, can then go on to Argentina for the wheat harvest, and, when that is over, go back to their own countries before time for cultivation begins. So, during the whole year, they can devote themselves to this type of casual labour. But the Japanese naturally cannot do this, since it takes two months for them to get to Brazil. According to official reports from Santos and São Paulo, where there is much foreign labour, Japanese entrances during last year were 11,294 as against 382 departures. Comparison of these figures with those for Spanish, Italian, and Portuguese emigrants shows how difficult it is for them to make return trips to their own country.

'In passing, we must note a confusion in the statistics arising from differences in the official definition of the word emigrant. In the Japanese emigration law, an emigrant is defined as "a person going abroad, other than to China, with the purpose of engaging in labour, and his family members accompanying him or going to the place where he is working". Kinds of labour are minutely enumerated. I do not know why persons going to China are excluded; perhaps it is because they mainly engage in trade and industry, and not in labour in the narrow sense. The emigration and immigration laws of other countries are broader. In Italy, the 1910 emigration law says: "An emigrant, so called in this law, is an Italian national going to land farther than the Suez Canal, except to Italian colonies and protectorates or farther than Gibraltar, except the European seaboard, and who travels third class." This covers not only labourers but professional persons, such as physicians, hotel-keepers, actors, and the like.

'Before the dispute of 1931, there were in Manchuria 20,000 immigrants from Japan Proper, and about 800,000 from Korea. During the last couple of years, 50,000 Japanese of various classes have gone to Manchukuo; but, excepting Koreans, these are mainly men connected with the South Manchurian Railway, tradesmen, and only a very few farmers. It is true that there is a policy afoot of settling farmers to the number of 100,000 families, or 500,000 people, in the next ten years. I have great doubts as to the success of this. To achieve success in emigration, the country to be settled must either have a higher standard of living or must be thinly populated. Manchukuo lacks both these conditions. Emigrants have to compete with Chinese farmers who have a lower standard of living. If mass emigration to Manchukuo were ever undertaken, it would involve an enormous financial burden on the Japanese Government or Japanese capitalists. Emigration *will* increase in future—but only gradually. Even if a plan of systematic emigration could raise the average number of emigrants in a year to 50,000, that would only be 20 per cent. of the yearly increase in the population of Japan. Migration to Brazil and Manchuria cannot be a radical cure for the pressure of population; it is only a drop in the bucket. Other countries have

had the same problem: for example, Germany's effort to found a settlement in Africa, when only 18,000 migrated in about thirty years. Italy's emigration policy has, on the whole, been a failure.

'Emigration policies have little prospect of success because of the filling up of the gap in the home country by oncoming generations.¹ Industrialization is the other remedy, and its success or failure depends on the tariff problem. As long as high tariffs exist, manufactures cannot be exchanged for raw materials. If Japan cannot buy food for her people because she cannot sell her manufactured goods in countries with high tariffs, she must either starve or cut her way out of the impasse. The heart of the Manchurian question may be explained from this angle.'

The difficulties of moving large numbers of people for settlement are by no means confined to Japan and European countries. Despite persistent efforts, the Philippine Government has had small success in promoting migration from the more crowded areas to the scantily settled southern islands. Still more striking is the difficulty encountered by the authorities in trying to encourage migration from Java to the outer islands. A member of the Netherlands group alluded to this in the course of the discussion.

'The experience of the Dutch East Indies', he said, 'seems to prove that overseas emigration cannot be of great importance and cannot be in any way helpful in solving the problem of population pressure. Of the whole 60 millions of population in the Dutch East Indies, 42 millions live in Java—which means there are 310 people per square kilometre; 18 millions live spread over the other islands—which means that there are 10 people per square kilometre. Although the pressure of population in Java is very great and the annual increase is still 600,000, Government policy has failed to spread the population more evenly over the islands. The agricultural emigration policy fostered by the Government resulted in settling only 30,000 Javanese colonists in the south of Sumatra, the nearest place to Java. Although the largest part of the labourers on the estates and plantations in the islands outside Java are Javanese, the number brought there by Western concerns amounts to only 400,000 in times of prosperity and much less in depressed times. One difficulty is that the agricultural system of Java is not practicable for most parts of the other islands, and emigrants usually lack funds to get there and to live for the initial period before profits begin to be earned.'

Manchuria as a Population Outlet.

The opinion quoted above that Manchuria even under its present Japanese guidance offers no promising outlet for the excess population of Japan Proper, while common enough, is by no means universally accepted. The remarks of various Japanese speakers at the round tables

¹ See *Problems of the Pacific*, 1931, p. 456.

revealed that, although nobody seriously believes that Manchuria or any other country could conceivably absorb anything like the annual increment of Japan's population, there are many, not all of them militarists or supporters of Japanese aggression, who believe that large colonization schemes for Japanese farmers are quite feasible in parts of Manchuria. A Japanese expert who had made extended field surveys of these selected regions said he was convinced that, with proper supervision and preparation, Japanese settlement on a significant scale was a practical proposition. Admittedly the initial costs of such schemes would be heavy; in fact, they would be impossible without financial backing either from Tokyo or from Changchun. But with such aid, and with a careful organization of the settlement's system of agriculture, he believed the myth that Japanese could not compete with Chinese farmers in Manchuria would soon be exploded. The real difficulties were in the provision of capital, in building up a marketing organization, and in educating Japanese settlers to the necessary changes in farming practice and in housing, clothing, and diet. His contention that climatic differences in Manchuria were not in themselves a bar to Japanese settlement was supported by an American member.

'May I suggest', said the latter, 'that there is no evidence at all to show that there are innate physical differences as between Japanese and Chinese in ability to withstand heat or cold. I have found in Manchuria many Japanese living under conditions of extreme hardship, in the forests of the north-east, in the Mongolian grazing lands of the west, and in small towns and villages of the great agricultural plains. But they are always confined to certain non-agricultural occupations, and those not very profitable—innkeepers, peddlers, small tradesmen, and petty manufacturers. It seems to me that the main reason why Japanese prefer to settle on the land in California, Australia, or Brazil is that their trend is towards Western ideas and Western standards of material comfort.'

A more cautious Japanese opinion was advanced against this statement. The speaker, with a long and intimate experience of Japanese settlement abroad, said:

'I think there is a good deal of truth in the view that we cannot thrive in the tropics or in extremely cold climates. That is why so many Japanese who went to Formosa in the early days have returned. I also do not think the climate of Manchuria is suitable for Japanese, though we can, of course, do much better than we have done in the past. It is true that some of our people fare very well in extreme climates. There are Japanese working in the tropical climates of the Malay Peninsula, and others are doing very well in Siberia. But, speaking generally, we cannot hope for a large migration to Manchuria, even with financial and other assistance.'

Manchuria and China's Population Problem.

An unfortunate tendency for speakers in some round tables to argue as if Japan were the only party concerned over a population outlet in Manchuria was sharply commented on by one of the Chinese members. He took pains to point out that Japan had no monopoly of the condition of over-population. On the contrary, great areas of Northern and Central China suffered from a chronic over-population, the results of which—famines, malnutrition, banditry, and civil strife—constituted a much graver national problem than anything Japan had to confront. Basing his remarks on a data paper¹ prepared by a well-known Chinese geologist, he showed how China's huge population of probably 450 millions is crowded together in a few densely peopled regions—the North China plain, the lower Yangtze Valley, and the coastal fringe. If the isolated but densely settled interior plain of Szechwan is also included, he held, roughly 360 million people or 85 per cent. of the total are concentrated in these regions, comprising an area of only 700,000 square miles, or 17 per cent. of the whole country. In the light of the best available knowledge of soil and climatic conditions, there seemed to be no reason to expect that inner colonization in the emptier lands of the North-West and Chinese Turkistan could ever provide for more than a trickle of settlers. The only promising outlet remained in the Three Eastern Provinces of Manchuria, where many millions of Chinese had migrated from the beginning of the century until the Japanese occupation in 1931.

'The thirty million inhabitants in Manchuria (excluding Jehol) if equally distributed would result in a density of 80 persons per square mile. However, the largest number are concentrated on the Manchurian plain in the flat valleys of the Nonni, Sungari, and Liao, with an area of 120,000 square miles—comparable in size to the North China plain, and even larger than the lower Yangtze Valley. A large part of this plain, especially in North Manchuria, is rich virgin soil which has never been cultivated until the recent development by Chinese immigrants. Although the climate is a little too cold, the hot summer is very favourable to agriculture. And the rainfall is more abundant there than in North China, ranging between 20 to over 30 inches in a year. With such favourable conditions, the Manchurian plain can probably support a population of 500 persons per square mile, or sixty million persons on the whole plain. As the actual population on the plain is now about twenty million there can be a further increase of forty million persons. This will be the maximum which, when reached, would result in as great congestion as exists now on the North China plain. If we assume

¹ W. H. Wong, *The Distribution of Population and Land Utilization in China*, China Council, 1933.

only one-half of the above figure or a possible increase of twenty million persons, there is still plenty of room for new immigration.

'No people are better qualified for the agricultural exploitation of Manchuria than the Chinese who are the best labourers and can withstand any hardships of pioneer life. To close Manchuria to the immigration of Chinese is unavoidably to delay the agricultural development of Manchuria. Manchuria is not only rich in agricultural resources but has also great mineral wealth and industrial possibilities, the exploitation of which requires modern technique and experience, which are yet to be developed among the Chinese. There is thus room for co-operation between different peoples for their mutual benefit and the best interest of the economic development of Manchuria.'¹

On the basis of this analysis, the Chinese speaker urged that Manchuria was far more important for China than for Japan. But some critically minded members argued, on the basis of past migration statistics, that the annual net departures from China were insufficient even in the peak year of 1927 to furnish permanent relief for the population pressure, and that, in any case, the emigrants came almost exclusively from the two provinces of Hopei and Shantung and could thus not affect the crowded regions of the Yangtze Valley. Another comment was that the migration of Chinese to Manchuria, though it had begun before the Japanese took the South Manchurian Railway in 1905, had grown to important dimensions only in the last ten years, and then only because of Japanese trade, investment, and railway development in the Three Provinces. Again it was shown that all too often the new lands in Manchuria had served not to improve the lot of the Shantung emigrant but to line the pockets of big landlords—mainly militarists or officials, who by dubious methods simply acquired for themselves huge estates on which the emigrants worked under a régime of feudal servitude.²

The reply from the Chinese speaker was that the relief caused by emigration was not simply a question of leaving room in the home provinces of Shantung and Hopei. The remittances sent back and brought back from Manchuria and, to some extent, trade opportunities had also to be taken into account. More important still was the question of internal political stability in China. The over-populated plains of North China had become a veritable breeding-ground for soldiers—not a surprising result since agriculture can no longer provide a livelihood for all the members of the farm families. If any real success was to be achieved in the disbanding of China's swollen armies it would only be because definite plans had been drawn up for absorbing the soldiers back into employment. Prior to the Japanese invasion of Manchuria, earnest

¹ W. H. Wong, *The Distribution of Population and Land Utilization in China*, China Council, 1933, p. 6.

² See Chen Han-seng, *The Present Agrarian Problem in China*, Document II, p. 271 *et seq.*

efforts were being made by certain government officials and private citizens of North China to promote colonization projects in Manchuria for disbanded northern soldiers. The Japanese militarists, by blocking this outlet, had probably done the most effective thing they could have chosen to perpetuate in China those conditions of political unsettlement for which that country was always being blamed.

Westerners at the round tables were anxious to learn whether Chinese migration into Manchuria would resume its former course after the Japanese had succeeded in restoring some measure of political stability and economic security under the present administration. Japanese members believed that this migration would begin again, since it was understood that the new administration would not impose restrictions, except possibly on certain immigrants for political reasons. A Chinese felt that, even though some thousands of farmers would begin to migrate once more, the political restrictions and discriminations imposed on Chinese generally would be so humiliating and intolerable as to preclude any large movement.

RAW MATERIALS AND MARKETS IN MANCHURIA

Whatever the success of Japanese colonization schemes in Manchuria, it seemed clear enough in the round tables that direct relief for Japan's population pressure is the least of the benefits to be expected from the new régime. The crucial problem is whether the four provinces under Japanese supervision can provide an indirect relief for Japan's population by supplying raw materials and markets for Japanese industry. Discussion of this topic was necessarily hampered by the lack of adequate information either on Japan's new investment policy in Manchuria or on the obstacles already encountered in the two years' work of economic consolidation. A further difficulty which was found to stultify the economic analysis of this problem arises from the intrusion of political, strategic, even sentimental considerations into the judgements of the authorities concerned with the development of the new state. Even if it can be shown, as some members thought possible, that many of the proposed plans for development in Manchuria are uneconomical and destined to result in added costs for the Japanese people as a whole, it may still be true that those in authority will accept these costs as justified by other, non-economic benefits. Moreover, there is always the probability that for certain groups—perhaps financiers and large investment concerns—Manchuria will be a veritable gold-mine, although for the nation at large it may be a serious liability. The influence which such vested interests will bring to bear on the authorities may easily outweigh the less organized powers of the public at large. The general

discussions on economic conflict at Banff revealed numerous situations of this sort in other Pacific countries. The records of tariff legislation in the United States, Canada, and Australia furnished a wealth of parallel examples.

The scanty evidence thus far available suggested that Manchuria, far from being a 'life-line', as described by the Japanese representatives at Geneva, may in several important products be a trade menace to the producer in Japan. The Japanese coal producer or bean-oil manufacturer has not bowed gracefully to the threat of cheap imported products, merely because the oil or coal came from the sacred soil of Manchuria.

'Fushun coal which constitutes more than half the total output of Manchuria is exported to Japan Proper to the extent of two million metric tons a year. Its superior quality and low price roused the violent opposition of mine owners in Kyushu (southern Japan) to its free importation, with the result that the sales to Japan were limited to 1,550,000 tons in 1932. This rivalry between Manchurian and Japanese producers and between Japanese consumers and Japanese producers in regard to the import of Manchurian raw materials is also exemplified in the case of bean for oil manufacturing.'¹

Some conference members were disposed to admit that too much had been made of the official Japanese 'life-line' argument as regards the supply of raw materials from Manchuria. Nevertheless, they maintained, the obverse aspect of this argument—that is, Manchuria as a necessary market for Japanese manufactures—warranted serious consideration. Others pointed out that in practice it is almost impossible to divorce the one aspect from the other. For, as long as Manchuria is not completely assimilated into the Japanese economic and financial system, commerce between the two regions will be subject to the same general rules of international trade as apply to other regions. This means, in effect, that Japan cannot find a large outlet for either her manufactures or her capital in Manchuria unless she is prepared to take in exchange considerably increased quantities of Manchurian foodstuffs and raw materials, which, as has been shown, compete with certain higher-cost Japanese industries. This problem is, of course, aggravated by the fact that Manchuria is already a large debtor to Japan and must therefore maintain a surplus of visible exports (visible, because she has no services—such as shipping or insurance—to offer instead of goods). It is still further aggravated because many of the old triangular adjustments² of the trade balance among China Proper, Japan, and Manchuria

¹ *Supply of Raw Materials in Japan*, prepared by the staff of the Tokyo Institute of Political and Economic Research, Japan Council, 1933, p. 21. See also *Economic Consequences of Recent Events in Manchuria*, printed below, Document VII, p. 422 *et seq.*

² For an illustration of this relationship see Mitsutaro Araki, *Financial System in Japan*, Japan Council, 1933, p. 39 *et seq.*

have been permanently disrupted. On the other hand, the less significant triangular adjustment through Korea still remains and may grow in importance, so that Manchuria will supply Korea with the cheaper and coarser goods while Korean rice is exported to feed Japan. But the effects of this arrangement are unlikely to bring any solution for the basic problem, which is that goods, investments, and services must ultimately be paid for in Manchurian goods and raw materials. Unless Japan changes her tariff policy greatly or includes Manchuria in a kind of Japanese economic union, she will find herself in a position not unlike that of the United States *vis-à-vis* the European debtor countries, and without any compensating factor equivalent to the expenditures of American tourists abroad in the recent years of plenty.

Even supposing that these difficulties were overcome, it was pointed out, the Manchurian market of perhaps 33 million people with extremely low purchasing power and simple consumption standards cannot be expected to offer really substantial resistance to Japanese trade. In reply to those who pointed to the increase in trade which has already taken place, it was argued that this was only to be expected because much trade that formerly went to China or foreign countries is now diverted to Japan, and because Japanese capital investments for railway developments are being reflected in increased imports. In addition to increases of this sort, moreover, it is certain that trade with Japan will continue to grow as internal conditions in Manchuria are stabilized.

How far this improvement will be exclusively for the benefit of Japanese and how far foreign traders will share in it was a matter of dispute at the round tables. Despite numerous assertions from the Manchurian authorities that the principle of equality and the Open Door would be maintained in all foreign commerce, there seemed to be growing evidence that, in fact, all business in Manchuria (especially external business) is passing steadily into the direct or indirect control of Japanese. Official contracts go to Japanese firms, credit is supplied by Japanese banks, shipping is increasingly under the Japanese flag. All this, as several members remarked, was no great revolution, since Japan had always had the lion's share of trade in Manchuria. According to an American member, many foreign companies had accepted the new situation and made the necessary adjustments by arranging for their business to be conducted through Japanese intermediaries. Whether this applied to Soviet trade in Manchuria was not stated. But, in any event, it was not believed that the foreign interests at stake were large enough to make likely any serious international disputes over markets and discriminating trade practices.

Foreign complications of this type are probably the least of Japan's

difficulties. The crucial question for her, it was maintained, is how far any gains she may snatch in Manchuria will not be (if they have not already been) outweighed by the trade losses she suffers in the much vaster and richer market of China Proper. Indeed, it was asked whether the economic losses already incurred from the boycott had not offset any possible gain in Manchuria for several years to come. If past experience can be trusted, the boycott would slowly die away, and in North China, at any rate, it had long since been abandoned. On the other hand, the trade figures alone gave a striking picture of the way in which anti-Japanese sentiment has persisted in the more nationalistic South and Central China. The losses have fallen not only on producers in Japan but also on the many Japanese concerns established in China, especially in Shanghai.¹

'The boycotts which hitherto had been instigated and directed by students began to be influenced by a new factor when groups of business men and the Chamber of Commerce actively co-operated with the students. It became not only a patriotic movement against a foreign Power, but had a separate purpose of actively encouraging the use of domestic goods. Since 1923 business circles have become most active in the organizing and leading of boycott movements, which, well supplied with funds, have proved most effective in driving out various Japanese manufactured goods from the Chinese market. Not only has this new movement aimed to make China largely independent of Japanese imports by encouraging the rapid industrialization of China, but it has effectively protected Chinese industries still in their beginnings.

'This new direction taken by the boycott movement can be seen in the articles of the boycott regulations, drawn up by the Boycott Association on the occasion of each boycott. In the articles exceptions are made to some Japanese goods, as for instance an article in the "Programme for Economic Rupture with Japan" of 1928, which divides Japanese goods into two categories: (1) articles of Japanese culture, science and medicine, or articles for daily subsistence to be declared conditionally contraband; (2) all other Japanese products to be declared absolutely contraband. This distinction was probably drawn to protect home products. Another article defines the case for imposing a private tax upon the sale of Japanese goods, serving thereby as a kind of import duty. If one reads the elaborate boycott regulations, one finds there many such measures whose purpose is to encourage domestic industries. . . .

'For the Japanese resident in China the economic loss has been very great. As individual traders they have suffered from the cancelling of orders, from the loss of the goodwill of customers, failures to collect dues and other

¹ For the economic aspects of this and past boycotts see K. Takayanagi, *Comparative Study of Boycotts* (Part II, Economic Effects, by S. Uramatsu), Japan Council, 1933. For a more detailed statistical examination, see C. F. Remer, *The Chinese Boycott*, Johns Hopkins Press, Baltimore, 1933.

hindrances to peaceful trade. Less tangible but none the less harmful were the psychological reactions of Japanese residents to the refusals by Chinese newspapers to advertise Japanese goods, the breaking and destroying of signboards, and the destruction of Japanese commodities. Taking all these facts into consideration, it can be said that the losses incurred and the suffering borne by the Japanese merchants in China is by far the greater if compared with the injury done to Japanese merchants in their own country.

'Japanese industrialists in China were placed in a most difficult situation by strikes organized by the Anti-Japanese Association. They were obliged to put up with the cutting off of the supply of daily necessities, insults on the streets, desertion by domestics who were coerced by the boycotters. The boycott which pronouncedly aimed at damaging Japanese trade had greater success in giving such injuries as mentioned above, and at the same time served as a protection for Chinese industries. Though these injuries and losses cannot be represented in figures, certainly the results must prove to be more serious than the loss in trade. If one reads those documents relating to conditions prior to the Shanghai Incident, one can understand the seriousness of the effects of the boycott. The smaller the traders and industrialists, the greater the losses. This will account for the fact that whenever a boycott took place the strongest protests came from Osaka where there are many small traders and industrialists who are carrying on business directly with China.'¹

Some members felt that all the evidence on Japanese experience with boycotts in China only gave added support to the theory that Japan would do better in the long run to confine herself to the Manchurian market. Small though it was, it could, under Japanese expansion, be kept stable and free from the continual upheavals of China Proper, where the prospect of future boycotts and other interruptions to trade had always to be faced. Furthermore, all the available evidence suggested that China Proper, even without the artificial stimulus of anti-Japanese campaigns, would before long manufacture for herself many of the goods she now imported from Japan. In such circumstances, the wise policy for Japan might perhaps be to prefer a smaller but certain profit in Manchuria in preference to the risks of greater gains with greater losses in China Proper.

In practice, of course, no one contended that there would be a clear-cut division on these two policies. What was suggested was that Japanese authorities will find themselves more and more involved with every new step they take in Manchuria, and increasingly induced to relinquish the field of China Proper in order to push forward the developments already initiated in Manchuria. This view, it must be pointed out, commanded no universal assent in the Banff Conference; but it was

¹ S. Uramatsu, *op. cit.*, pp. 29-30, 31-2.

regarded as an interesting aspect of the widely shared theory that Manchuria will inevitably be wholly assimilated within the economic universe of Japan.

THE NECESSITY FOR INCREASED INDUSTRIALIZATION

It became apparent quite early in the Banff discussions that even the rosiest estimates of the benefits that a unified and well-equipped Manchurian empire will bring to Japan fall short of the economic advances demanded by the double increase of population and standards of comfort in Japan Proper. They certainly cannot free Japan from the imperative need for more intensified industrial development. Thus, to state the issue as if there were a choice between territorial expansion or further industrial expansion was seen to be wholly misleading. The fact is that Japan must continue to industrialize, with Manchuria or without. The real issue is, In what particular lines of industry will she continue to expand most, and at what speed? For evidence that a renewed drive towards industrial and trade expansion has already begun, conference members hardly needed to look farther than the headlines of their daily newspapers. Even the most generous discounting of the effects of a depreciated yen could not explain away all of Japan's remarkable new invasion of foreign markets. On the other hand, those members who looked beyond the immediate situation of 1933 saw in Japan several inherent handicaps destined inevitably to retard and complicate the long-term course of industrialization.

Scarcity of Raw Materials and Basic Minerals.

Japan's lack, not only of raw materials for manufacture but also of the basic minerals on which modern industry is founded, was too well known to conference members to need much description at the round tables.¹ That a great industrial country should have no significant domestic supplies of wool, cotton, rubber, paper, and tin was regarded as a serious but not unprecedented situation. But Japan lacks also the cheap and abundant supplies of iron, coal, and oil that the other large industrial countries have possessed at a similar stage in their development. It is at this point that the customary analogy with Great Britain breaks down. A closer but still imperfect comparison was seen in a country like Italy. Japan must not only buy wool from Australia, cotton from India and the United States, rubber and tin from Malaya; she must also obtain her iron from Malaya (since Manchurian supplies are both expensive and inadequate), and oil from the United States or

¹ The situation is briefly summarized in the data paper, *Supply of Raw Materials in Japan*, Japan Council, 1933.

the Netherlands East Indies. Her coal supplies, though adequate at present, comprise insufficient coking coal and, even with the probable development of greater and more reliable sources of hydro-electric power,¹ will not be enough for a long period of heavy industrialization. It has been shown that Manchuria can relieve only part of these shortages, and then (coal excepted) only at a relatively high cost.

Shortage of Capital.

A further limiting factor, discussed at some length by a Dutch member, is the amount of national saving in Japan to provide the additional capital investment necessitated by a large programme of industrialization. Basing his argument on the existing ratio between capital invested and labour employed in the cotton industry as a representative form of industrialization, the speaker maintained that Japan would have to save an unprecedented and probably impossible amount of real wealth to furnish the needed capital equipment for the annual 250,000 increment to the working population. To reason so simply is, of course, a doubtful procedure, and some of the statistical details were, in fact, questioned by Japanese members. There is no sound reason to believe, they contended, that the existing labour-capital ratio in the cotton-spinning industry will remain unchanged in the future, still less that it will approximate to the average of all industries. They also pointed out that one of Japan's chief exports, raw silk, is the product of a semi-industrialized occupation, and that a similar condition exists in many other semi-domestic light products, such as matches, toys, electric lamps, and lead pencils.

At the same time, most members felt that the difficulties of inadequate capital for development could not be thus wholly dismissed. Japan, unlike Great Britain, has not had a long period of capital accumulation and foreign investment. She has, except for the war period, remained a debtor in international financial relations. The low level of her national income (estimated at 176 gold yen *per capita* in 1928, as compared with a corresponding figure of 748 yen for Great Britain, and 1,488 yen for the United States),² is a further indication that further capital accumulation, together with rising standards of expenditure, will not be without difficulty, notwithstanding the extraordinary record of the post-war years

¹ One of the greatest drawbacks to the generation of electric power by water in Japan is that a number of rivers become frozen during the winter when the demand for electric power is greatest. To eliminate this inconvenience, plants for electricity generation by steam are set up for winter—a fact which accounts for the heavy over-equipment of steam plants. *Ibid.*, p. 8. See also M. Royama, *Control of the Electric Power Industry in Japan*, Japan Council, 1933.

² H. G. Moulton, *Japan, An Economic and Financial Appraisal*, Washington, 1931, p. 614.

in the increase of savings.¹ The gravity of the problem is well exemplified in the cruel period of forced saving which the Soviet Union had to undergo to obtain the capital equipment for its industrial programme. Whether Japan would be able or would need to experience such heroic measures seemed highly doubtful to most conference members. On the other hand, the difficulty is increased by the probability that a large volume of new investment will be needed in Manchuria, and that new supplies of foreign capital either for Japan or Manchuria will be cut off for some time to come.

Weaknesses in the Financial Structure.

Japan's difficulties over the problem of adequate capital accumulation are partly reflected in certain characteristics of her banking and financial machinery. At a time of world financial chaos, when the monetary mechanism of dozens of nations has broken down, there is of course little ground for surprise that weaknesses in Japan should be apparent. What is more remarkable is that Japanese banking and Japan's international credit have withstood so well the financial collapses that struck western Europe and the United States. With that qualification in mind, one can better appreciate the following critical analysis of Japan's financial system in one of the data papers:

'Since the Meiji Restoration of 1868 Japan has done its best, officially and privately, to import foreign systems. First of all the nation established a new monetary system, and then endeavoured to establish financial institutions after the Western fashion. Mere forms, and not the spirit, have been imported, and as a result Japan has experienced a great many difficulties, what was imported not entirely answering the needs of actual economic conditions.

'On the other hand, the rapid development of Japan from an agricultural country into a commercial and industrial one has necessitated the creation of various financial institutions to meet the new requirements. This was undertaken recklessly, and these institutions were lacking both in proper connexions and control, thus sowing seeds of discord for the future. To-day their forms have indeed been perfected, but they are grouped together in several disconnected credit-sections, each group holding its own against the rest, and the day seems far off yet when they will be controlled effectively, as they should be, by the Bank of Japan, their central institution.

'Now, among the financial institutions are included many so-called "special" banks, and these give, each in its allotted field, full play to their powerful functions. These banks were created from time to time, some in mere imitation of things foreign, some by urgent demand arising from

¹ H. G. Moulton, *Japan, An Economic and Financial Appraisal*, Washington, 1931, pp. 424 and 624. It is estimated that Japan's savings fund grew from 8,488 million yen in 1922 to 14,740 million in 1928, or from roughly 149 to 237 yen *per capita*.

special circumstances. Apart from the question of merit or demerit of these institutions, they have made the country's financial system complicated and peculiar.

'To-day, both our ordinary and special banks have begun to show a tendency to develop along the line of English deposit banks, with the result that their loans on mortgage of real-estate are on the decrease. But among the local ordinary banks there is still no small number whose business consists in investing in agriculture or industry pure and simple. It was from these circumstances that they nearly went into insolvency lately. Fortunately, they held securities made over to the Hypothec Bank of Japan, the proper institution for agricultural credit, and because of this had their locked-up capital released.

'But the fact that there is no proper market for short-term loans in Japan makes even large city banks wedge themselves into the sphere of short-term industrial credit, so much so that the dividing line between them and the Industrial Bank of Japan, that specializes in the business, consists in the mere difference in the length of term of the loans and the sources of funds employed for the purpose. In short, the financial institutions in Japan have characteristics so unique in nature that few examples are found elsewhere, of their complexity, their lack of uniformity and control, and of their "division of labour" along most intricate lines. . . .

'*Absence of a Short-Term Loan Market.* There is a great obstacle in the way of the satisfactory development of our banks and in the way of unfettered financial activity. The obstacle consists in the non-existence of any proper market for short-term loans. In London, call funds of deposit banks are lent through brokers to the bill market so that they may be called in any time they are wanted. Likewise in New York, no small amount of such funds are, as in London, laid out in the bill market, whose recent development has been remarkable. In the case of New York, however, more funds go to the Stock Exchange, where they form, together with the abundant first-class securities there existing, a suitable market for short-term loans. Indeed, in New York, "call loan" is but another name for short-term money laid out on the Stock Exchange. . . .

'In Japan, there is, in the first place, no bill market, nor anything that corresponds to the English trade acceptances, bank acceptances, or treasury acceptances, which are so abundant in the London market and which form the most ideal objects for short-term loans. There is, indeed, an item styled "commercial paper" in our daily report of rates of interest, and also there is included among the collaterals prescribed by the Bank of Japan an item of "commercial paper". But commercial paper, in the true sense of the term, does not exist, and the collaterals in the Bank of Japan are at this moment almost entirely supplanted by national bonds.

'With so extremely small an amount of commercial paper, or bank acceptances, circulating in the market, call funds in the hands of ordinary banks cannot but tend to flow in a specific and unsound direction. As a matter of fact, the demand for such call funds is confined to certain special banks

or certain specified quarters, so that the lenders and borrowers of such funds have come to be more or less definitely fixed as time goes by, which certainly is a rather singular phenomenon. All this has resulted in the concentration of funds in city banks and also the superabundance of idle money. If, under the Exchange Control Law in force, restrictions are placed upon investment abroad, it is not impossible that call funds might find their way, as in America, into our stock exchanges, which are at once meagre in resources and unreliable. Fortunately, thanks to traditional prejudice, a gap still exists between stock exchanges on the one hand and financial institutions and the general public on the other, which has so far prevented financial institutions from investing publicly on stock exchanges. On the other hand, these financial institutions, especially the ordinary banks, are, with all their tendency to become commercial banks, still unwilling to give up their practice of granting loans on movable or immovable properties, and proofs are not wanting that the five great banks have been devoting themselves to the foreign exchange business, a line of business which does not properly belong to them, for already more than a year. . . .

Characteristics of Deposits and Loans. Because our financial system includes a large number of so-called special banks with the power of issuing debentures to enormous amounts, and also because of several other facts and circumstances peculiar to the money market of this country, a direct statistical comparison of our figures with those of other countries would be practically meaningless. But we have ordinary banks which depend upon bank deposits for the source of their activities and which have much of the nature of short-term commercial credit institutions. A glance at the deposits in these institutions will indicate that "fixed" deposits claim an enormous proportion, while the current deposits show comparatively poor figures, and that, in comparison with the latter deposits, the "special current" deposits, which can be drawn on only by means of pass-books, not checks, claim a far larger proportion. Referring to recent figures, of the total amount of deposits of all ordinary banks aggregating 9,000 million yen, the "fixed" deposits amount to 5,000 million yen and "special current" deposits to close on 2,000 million, while the "current" deposits show only a little over 1,000 million.

That the position of the ordinary banks should be affected by this fact in the course of time is not difficult to see. For one thing, their position as holders of large amounts of "fixed" deposits will be threatened by the nation-wide extension of the business of trust companies now going on, because of the fact that these, too, make it their chief business to receive money in "fixed" form. Under these circumstances, the competition among various institutions could not but result in a rise in the rate of interest to higher and higher levels as time went by, so that interest is paid in this country on all kinds of deposits from the "fixed" to current deposits. Current deposit without interest is entirely unknown in this country—it is almost beyond imagination.

With regard to loans, it has been repeatedly pointed out that a tendency to a "division of labour" is advancing among our institutions, thanks to the

existence of various special banks. Nevertheless they are lacking in unity, forming a very complicated system of lending. In particular, the usual practice of making large loans to certain specified small circles has often endangered the foundation of these institutions at times of economic crises, when such loans tended inevitably to increase greatly.

‘As for the security market in this country, even what are generally called first-class securities cannot bear comparison with those in European or American markets. The chief reason is that, in Japan, all works of public utility, such as railways, telegraph, and telephone, belong to the Government, while even such daily necessities as salt and tobacco are under government monopoly. Naturally, there are but few large companies which are in a position to offer safe securities to the market. There are, indeed, some large companies such as Mitsui or Mitsubishi which compare favourably with any other company in the world, but they are owned by great plutocratic families and so have but little to do with the security market. The result is that, under present circumstances, loans based upon the stocks of the existing companies are not safe. . . .

‘Among the stocks of various companies, those of the Tokyo and Osaka Exchanges are considered most acceptable as security in spite of the violent fluctuation in price to which they are constantly subjected, for the simple reason that they are more saleable than others. This fact, coupled with the absence of good stocks in our security market, which is a result of the economic conditions peculiar to this country, and also with the fact that stocks are not yet sufficiently popularized, causes much confusion in loan-making by our financial institutions. In figures at the close of 1930 showing loans as classified according to the security they were made on, the loans secured by stocks claim 22 per cent. of the whole amount. Further reference to the figures at the end of 1931 shows that, of the 10,000 million yen representing the whole of bank loans, 3,800 million belong to the so-called “loan on pledge of securities”. . . .

‘*Government Relief Measures.* The banking business not only partakes more of a public nature than do other businesses in general, but also possesses the greatest profit-making capacity. When this capacity is unduly emphasized, it runs counter to public welfare; it will be then doing harm to the development of the national economy. The financial panics, or great financial changes, that took place in this country in the past resulted, it might be said, from excessive profit-making activities of banks, whether in this country or in any other. Now, during such financial catastrophes, the Government made it a rule to take the remedy into its hands, and, by obtaining the necessary resources from the Bank of Japan, invariably weakened the controlling power of the Bank. In fact, it is not too much to say that the Government, misled by the beautiful name of public institutions given to banks, promised them implicitly that it would help them should they fail, and that, thus armed by Government promise of aid, they rushed into profit-making undertakings. The result is seen in the financial panic of 1929 and in the “dollar mania” of 1930. . . .

'Participation in Politics. Another great evil in our financial world is the active participation of some bankers in domestic party politics. Not only have they made loans in the interest of their party, but their doings have often given rise to scandals. In this connexion, the late Mr. Inouye's speech at the Osaka Clearing House is to the point. He said:

"There are many instances where bankers weakened their business position by becoming entangled with political parties or factions. Since the financial crisis last year I have thought more deeply than ever about the evil results arising from bankers participating in politics. To mention concrete cases, some bankers misappropriated bank funds for the sake of the convenience of political parties or factions in which they were interested. Others made advances to some people, paying little attention to the acceptability of the security offered in return, simply because these bankers belonged to the same party or faction as these people. Some bankers had such close connexions with political parties that they challenged those banks which represented the influence of opposing parties, with the result that both at last found themselves in straitened circumstances. In some cases, these banks circulated malicious insinuations against each other, in consequence of which some of them invited a run which adversely affected the local money market. There are also cases where bankers bound themselves too closely to political parties, and were used by these parties. . . ."

But the warning of Mr. Inouye was little heeded by our great financial capitalists whose world-wide power had been constantly growing both economically and politically all this time. The result was that the gold standard, restored to the country largely through Mr. Inouye's efforts, was maintained for less than two years, and in December, 1931, it was abandoned once more largely through the political intrigues of the great financial capitalists.¹

State Assistance for Industrialization.

The allusions in the above quotation to the role played by the Japanese Government in assisting business need not have been confined to the sphere of emergency relief for banking and finance. It is well known that the State took (perhaps had to take) an active part in the initial construction of a banking system for the country. It set up not only the Central Bank of Japan, with its allied central banks of Taiwan and Chosen, but also the 'special banks' of which the Yokohama Specie Bank, concerned originally with the promotion of foreign trade, the Industrial Bank of Japan, for the financing of industry, and the Hypothec Bank, an agricultural credit and investment institution, are the chief examples.² In addition, the Government itself went into business during the early years of industrialism, establishing factories and arranging for the employment of foreign technical advisers. To-day it owns and operates the railways,

¹ Mitsutaro Araki, *Financial System in Japan*, Japan Council, 1933, pp. 23-31.

² For convenient descriptions see Araki, *op. cit.*, pp. 1-22, and Moulton, *op. cit.*, pp. 154 and 156.

electrical communications, an iron foundry, exercises a monopoly on the sale of salt and tobacco, and has a large financial stake in the South Manchuria Railway. Government factories, as recently as 1928, numbered 371 and employed over 136,000 men.¹

The manner in which this paternalistic tradition has persisted down to the present day was well brought out in the Banff discussions. In a dozen ways, through control schemes, subsidies, export associations, cheap transport, promotion of rationalization, the state still attempts to guide the course of industry, agriculture and trade.² Indeed, non-Japanese members in the round tables were sometimes disposed to exaggerate the extent to which this Government influence determines the course of Japan's economic influence. Important industrial groups, they were reminded, are still outside state influence or control, and in some respects the well-organized cotton-spinning industry, especially in the Osaka region, has a tradition of independence and free trade not unlike that of Manchester.

'Government participation in industry', said a Japanese economist, 'is differently interpreted in the West and in Japan. Japan, being a late comer in the industrial world, began the process of industrialization only seventy years ago, and its industries were still in an infant stage when most Western countries were well developed. The Government has always had to take the lead and set an example for private enterprise to follow. Our attitude towards so-called Government interference is, therefore, quite different from the Western view. Even now when industries are fully grown, private enterprise still has the habit of looking to the Government as a guide. Industries seldom even settle disputes without turning to the Government. Only a few groups, such as the cotton industry, are well organized. The raw-silk business is quite unorganized except for the export inspection rules, and the price is almost entirely fixed by the American buyers. As a result, the Government has always come to the rescue whenever a crisis occurred in the industry. In the post-war slump and several times since, the state furnished credit facilities, and bought up surplus stocks of silk for storage in the hope of steadying prices. The first effort was a failure, and the Government lost most of its money. The second, in 1925-6, was more successful because of good conditions of demand in the United States. In the present slump of silk prices, the Government has not tried the same method, evidently considering the risk of large losses too great. It has, however, furnished relief under the Silk Stabilization Act of 1930, by indemnifying silk producers for losses suffered up to the amount of 3,500 yen for each "account" of ten bales. Similarly, in the field of foreign trade, Mr. Inouye, of the former Hamaguchi cabinet, urged a policy of aid for the expansion of exports. The

¹ Moulton, *op. cit.*, p. 315.

² See the data paper *Control in Industry in Japan* printed below, Document I, p. 254 *et seq.*

Government formed a Rationalization Bureau to help businesses, especially small export industries, to organize themselves for price regulation and standardization of quality in exporting. As for the shipping subsidies which attract so much attention abroad, they have chiefly been given for ship-building. Japan, during the War, bought a great many old ships from other nations. To-day, in order to replace these obsolete vessels with modern ships, the state has given aid for ships built to certain specifications.¹ It also gives subsidies to firms engaged in the purchase and breaking-up of old vessels for scrap metal.'

Industrial planning in Japan, it was shown, has thus had a long history and an unusual background. It stands as an interesting contrast to the Soviet type of plan and philosophy of economic nationalism which seemed to be the basis of many policies in the new American recovery programme. Until recently, at any rate, Japanese planning certainly did not work for economic isolation. Whether the new régime in Manchuria marks a turning-point and a trend towards economic exclusion or a variety of the Corporate State after the Italian model, could not be decided at the Banff round tables.

'There has been some assumption in our discussions', said an American student of Japanese economic development, 'that national planning means the reduction of international trade, and that national planning is a new thing. National economic planning differs only in degree from what we have had for a long time in certain parts of the world. For instance, free trade itself is a national economic policy and, like a tariff, is designed to promote certain national ends. In some cases these policies may have brought a larger well-being to the people. The German Empire from 1870 is a good illustration of national planning on a wide scale. The financial, commercial, and agricultural policies were all directed towards the objective of creating a larger population within the Empire. The same sort of thing is being done in Japan. Before 1870 Japan was a feudal society, but since that time it has had a well-defined line of national policy. It is my conviction, as a student of economics reared in the classical traditions, that Japan did succeed, by its national policy in which the Government played a leading role in agriculture and industry, in making the country capable of supporting a larger population than it could have if there had been no government aid. If this is so, and if it is also true of Germany, has such a policy been to the general disadvantage of other countries? I do not think so. In the case of Japan, the fact of a growing population and a rising standard of living during the past fifty years has meant an increased market for the United States and, vice versa, increased purchases of silk by the United States.

'I nevertheless clearly recognize that there is great danger at this juncture, when nations see the adverse effects of competition in particular lines of production, that we may go in a direction of isolation which would be to the

¹ See Chapter II, p. 48.

disadvantage of the whole world. In the nineteenth century and the early twentieth century, as far as Europe and the less developed parts of the world are concerned, it was the opening of the Mississippi Valley, of the Argentine, of Australia, and of Canada that made possible cheap food and raw materials which, in turn, made possible the urban populations of Europe. It is equally true that the prosperity of these agricultural regions would not have been possible without the growth of the urban populations of Europe. This situation is now changed. The United States has a large home market, but it is still not large enough. If we tried complete self-sufficiency it would necessitate a shift from the production of an exportable surplus of food, because our own urban population has enough food without this total production. This would mean tremendous shifts in the whole internal economic organization. The whole world cannot over any short period of time retrace the steps of the last one hundred years without inevitable disaster. Civilization cannot survive any rapid reversal of the direction of its general trends. At the present time there is a tendency towards such a reversal, but that does not warrant the conclusion that any country has definitely determined to pursue such a policy.'

THE NEED FOR PROTECTING AGRICULTURE

How to push on with industrial development and at the same time safeguard the already dwindling fortunes of millions of small farmers is perhaps Japan's greatest social dilemma. This agricultural problem lies at the very root of all Japanese national policy, in diplomacy as in foreign commerce. Its bearings on the Manchurian adventure, through the close relationship of agrarian distress to militarist discontent, were well known to most Banff Conference members. It can hardly be compared with the American agricultural problem, where the issue is one of finding foreign markets for a chronic surplus of agricultural products. If any parallel is to be sought it must be in the England of the early nineteenth century, where agriculture in the end was simply crushed under the foot of industrialism. For Japan a policy with such objectives, it was repeatedly stated, would mean revolution. The Japanese farmer group, though poor and economically depressed, is too large to be 'liquidated' like the English agricultural worker a century ago. The nation has, therefore, found it impossible to face the fundamental inconsistency in pursuing a policy of hastened industrialization and at the same time conserving a large agricultural population. It has been forced to compromise and postpone the ultimate issue, by protective tariffs on imported agricultural products, by financial aid to encourage self-sufficiency (at least within the Empire if not in Japan Proper) in rice, wheat, and sugar. All these measures naturally tend to raise the cost of living for the population as a whole, and fall as a burden

on the industrial wage-earning and salaried groups. Yet, at the same time, industrial vested interests have compelled the Government to grant protection on manufactured goods, resulting in additional costs which the agricultural population must help to bear.

Conference members familiar with the dilemma of agricultural as against industrial development, as outlined here, were the better able to appreciate the following remarks by a leading Japanese authority on the subject.

‘The Japanese Government activities in control of industry are divided into those treating the manufacturing industries and those treating agriculture. The second phase of these Government activities is more important, in my opinion, although it is less known to the outside world. This planning contains a certain combination of the principles of *laissez-faire* and state control. Agriculture is the most important industry in Japan. It sustains the greatest number of workers; and the net wealth derived from its products surpasses that of the manufacturing industries, although the gross income of manufacturing computed before the deduction of costs of raw materials is greater than that of agriculture. The Japanese farmers have been suffering like all farmers in the world economic crisis. The Government has been doing its best for them for a long time, by extending credits at low interest rates, by providing technical education, and by agricultural engineering. This sort of help, however, will no longer suffice to rescue our farmers, because the aim of all these agricultural activities was to increase production. It had no control over prices, and the price declined in proportion to the increased production. Although the farmer spent more on labour and efficient production, his net cash receipts were smaller. The proportionate decline in agricultural prices was greater than that of manufacturing prices; but the interest and tax charges did not decrease at all. To-day, the most important business of the Government is to adjust production to consumption, and the problem is how to control production when there are millions of farmers in Japan.

‘The method chosen was to launch a campaign for village economic planning. Each village was to work out its own detailed plan, but the Prefectures and the Central Government were to co-ordinate and supervise these plans. A special bureau was created in the Department of Agriculture, the Bureau of Rural Reconstruction, and a national committee (of which I am a member) was nominated by the Government to help administer this scheme. Similar committees are established in all the Prefectural Governments. There are 12,000 villages in Japan. The plan was that every year about one thousand villages would be asked to work out their economic plans; but the idea was received so favourably by the villages that in the first year fifteen hundred of them made such plans.

‘The general plan is somewhat as follows. First, the village studies the annual production and consumption of its people. In most cases it is found that the money value of consumption is greater than the production. Therefore they must try to increase production of certain agricultural products,

develop some subsidiary industries, and economize in their consumption. They also try to improve the conditions of the marketing of their chief products and to relieve the debt pressure in their community. The four points in the plans, therefore, are: (1) planned production; (2) economized living; (3) improvement of marketing technique; (4) reduction of debt. At the same time, the Government has to consider that if many villages produce more, there will be a further decline in agricultural prices. Therefore it is clear that the National Government must supervise the village planning and advise the people as to what agricultural commodities they should begin to produce. Moreover, the government is afraid that if the villages are to buy less from the city manufacturers it will depress the conditions in the cities and reduce their purchasing power for agricultural products, causing a further decline of prices. If the farmers economize too much they will defeat their own ends. Therefore, the Government must continually watch that there is a proper adjustment between agriculture and industry.

'When the village plan is established, it may be that each farmer will be asked to farm according to the general plan. He will not be forced to do so, as under the Soviet system, but he will be advised to follow the plan. Therefore, I think it is a happy combination between liberalism and collectivism, based on the principle of co-operation. A co-operative association is to plan and carry out this scheme. If this plan is carried out it will be a peaceful revolution. It is bound to bring a corresponding change in the industrial organization of the cities. It may, indeed, become an N.R.A. for Japan. It is just beginning, and its success will be seen only in the future.

'The national economy will, it is hoped, be reorganized on a basis of co-operation, not solely on the principle of profit making. This, it seems to me, should also be the basis for our international negotiations. Viewed from the standpoint of Japan, it is especially desirable that international economic relations should be based on the co-operative principle and not on the competitive. Some sort of reasoned planning must be carried out to rescue the world from the depression. It is an absurdity that there should be everywhere plenty and, at the same time, want. It arises from the shortcomings of the present social system. We do not want to change this social system by violence, as they did in Russia. A wiser way is to be found through the ideals and traditions of the respective countries. Although the method of launching this plan in Japan may be different from that used in the United States, perhaps the goal and the direction of the plan are the same.'

THE DRIVE FOR FOREIGN MARKETS

Industrialization for Japan means foreign trade and competition with other trading nations. The home market and the Empire market, even supposing their effective purchasing power were to be greatly increased by a revolutionary redistribution of national wealth, it was clear, will never wholly free Japan from the need of buying and selling abroad. Nor will the brightest hopes of Manchurian development ever banish

the prospect of strenuous international competition. In the last resort, the members of the round tables came to realize, what Japan must seek, cultivate, and at all costs acquire, are overseas markets for her manufactures. Beside markets, other national *desiderata*, whether outlets for emigration or the control of raw material supplies, must take second place. It is that imperative need which gives substance to the worldwide agitation over the alleged menace of Japanese competition. Behind all the clamour of vested interests protesting Japanese invasion of markets as unfair, and behind the temporary advantages gained from Japanese exchange fluctuations, was seen to stand the disturbing fact that Japan must expand increasingly into new markets, and this at a time when world-economic tendencies are towards commercial isolation.

The urgency of the matter was all too plain to members of the conference. They were familiar with the prolonged and embittered Indian-Japanese negotiations at Simla, arising out of the raised Indian tariff on cotton goods and the retaliatory gesture of the Japanese cotton spinners in boycotting Indian raw cotton. They had heard stories of Japanese cotton undershirts being exhibited by irate members to an astonished House of Commons in England, of Japanese tablecloths sold at ruinously low prices in Manchester itself. Reports of alleged Japanese dumping of rayon and cotton goods had come from African colonies, regarded up to then as the exclusive preserves of Lancashire. Dumping duties on other Japanese products, ranging from toys to rubber shoes, lead pencils, and electric light bulbs, had been imposed in many countries. Indeed, the loudest cries of complaint had to do with the fact that Japanese competition no longer affected mainly textile manufactures, but was penetrating into a great variety of new light industries hitherto immune. Nevertheless, the cotton dispute with India held the centre of attention in the round tables, both because of the international ill feeling it aroused and because of the light it threw on the complex problem of group interests affecting official international policies. The vital importance of the cotton industry and the Indian market to Japan was obvious to all round tables. As Japanese members showed, it is at once Japan's greatest strength and a possible weakness. For her foreign commerce labours under a double disability, the handicaps of having too many eggs in one basket. On the one hand she must depend for her raw cotton supplies on India, China, and the United States, since Egyptian supplies are small and suited only for special purposes of mixing; on the other hand, she must sell the larger part of her export products to the same countries, nearly all of her silk going to the United States, and most of her cotton goods to India, China, and south-eastern Asia. Thus

her efforts are too concentrated in products (raw silk and cotton manufactures) and at the same time too concentrated in sales territories.

The background of the Indian dispute was briefly outlined for one round table by a Japanese economist. The Indian tariff on cotton goods was very low till the end of the War. It was then raised only to $7\frac{1}{2}$ and a little later to 11 per cent. All countries received equal treatment up to 1930, when a small margin of British preference was granted. With the depression, however, increases steadily occurred both in the rate of duty and in the margin of British preference. In 1931, before the fall of the yen, the duty was 25 per cent. for British and 31 for foreign goods. As the equal fall in the pound and the yen stimulated both English and Japanese exports, the Japanese felt especially resentful that, beginning in September 1932, the tariff on foreign cotton goods was raised again—to 50, and in 1933 to 75, while the preferential rate remained at 25 per cent. The Indian Government then abrogated the India-Japan Trade Agreement, and the Japan Cotton Spinners' Association, the largest single buyer of Indian cotton, declared a boycott on further purchases, substituting with American cotton, fortunately available very cheaply. The Simla Conference had been called to find a way out of the deadlock.¹ The Japanese exporters were not insisting on an absolutely free entry to the Indian market, nor even to a certain degree of British preference. But they wanted to be sure that any emergency increase of duties should be merely proportionate to the exchange depreciation and should be removed when the effects of the depreciation disappeared, as they would before long.

The India-Japan dispute was quickly seen to be part of a world-wide competition in textiles. On the one side there are the Bombay cotton spinners, interested in protection against both Japanese and English imports. Lancashire for a time, during 1932, made some headway against Japan in the China market, while the anti-Japanese boycott was still strong, and thus compensated to some extent for Japanese inroads on the markets of India, Egypt, East and West Africa. China herself has begun to supply herself with the cheaper qualities of cloth formerly imported from Japan, so that the Osaka producers are driven more and more into the superior grades of product, where they

¹ The conference, already in session when the Banff Conference met, dragged on to January 6, 1934, when a species of barter agreement was reached after much controversy. The agreement establishes a sliding scale in which Japanese purchases of raw cotton are offset by Indian purchases of cloth. According to the press reports, India will take 325 million yards of cotton goods when Japan takes one million bales of cotton, and 400 million yards when she takes one and a half million bales. The agreement is to last for three years and involves the abandonment of the boycott. It is believed that disputes are still likely to occur within the various divisions of the total quota.

compete more violently with their Manchester rivals. The tangle of group interests is still further complicated by the investment of both British and Japanese capital inside the tariff barriers of China and India.

As to how far Japanese competition with Lancashire is 'unfair', how far the temporary effect of exchange depreciation, there was considerable disagreement in the round tables. It was pointed out that both countries have had the exchange advantage. Moreover, Japanese members pointed to the undeniably superior organization of their industry with its closely linked supervision of all the processes—from the purchase of the cotton to the ultimate shipping abroad and marketing. Japan had also made important technical advances in the introduction of new machinery, new methods of mixing various types of raw cotton. In reply to the charge that wages in the industry are deplorably low, they asked, first, that allowance be made for the important contributions to the welfare of factory operatives supplied free by the firms, in the form of housing, education, and health facilities; and second that the handicap of high capital charges in Japan be kept in mind as an offsetting factor.

The picture of the Lancashire industry, as given by a British member long connected with it, presented great contrasts. Still the largest cotton industry in the world, though its exports in 1932 began, for the first time, to fall below Japan's, it typifies the Industrial Revolution of the West. Buying its raw material chiefly from the United States and selling the product to all the world, Lancashire, which produced 7,000 million square yards of piece goods in 1913, lost many markets during the War and afterwards found them pre-empted by Japanese competitors. This and the subsequent encroachments of Japanese and Indian producers so depressed the industry as greatly to delay the necessary capital readjustments and rehabilitation of machinery. In contrast to Japan, Lancashire has carried decentralization and division of labour to extreme limits. The various branches of work, spinning, weaving, bleaching, printing, and exporting are all kept distinct and in separate organizations. The tradition of individualism that fostered this decentralization has greatly hampered the much needed work of rationalization.

This information was supplemented by another British member, a representative for a cotton district in Parliament.

'For the last two years', he said, 'half the working population of a leading town of my constituency has been unemployed. The mills have made no profit for a long time, so that it is impossible even to have them bought up and reorganized. Four-fifths of Lancashire's product are ordinarily exports, and about half used to go to India. That country now takes much less

because of the boycott and the protective tariff for its own cotton industry. There is no longer any natural reason for Lancashire to be a cotton centre, since the necessary humidity for manufacture can now be created artificially. Japanese competitors gave the last blow to Lancashire, and since 1931 have taken first place in the world's exports. It is true that the British trade until very recently was not seriously threatened in the higher quality goods because of Japan's greater development of automatic looms which are less suited for the higher grades.

'We recognize that Japan has a deserved advantage in that her industry is concentrated in the hands of a few large concerns, thus being more flexible and amenable to the collective action of trade associations than Lancashire. On the other hand, public opinion in Great Britain obliges us to guarantee our workers a standard of living which (when the most generous allowances for differences in custom are made) we believe to be much higher than anything obtaining in Japan. We are thus forced to ask in all seriousness whether it is right for workers of low-standard countries to upset and depress the hard-won standards of our country.'

Possibilities of International Action.

What is to be the upshot of Japan's trade expansion? Does it inevitably mean more and more commercial wars after the model of the Indian dispute, or is there a possibility of avoiding that danger by some kind of international adjustment before national feeling becomes too heated for reasonable negotiations? Allocation of markets was a possibility that engaged the attention of several round tables at Banff. Several Japanese and British members expressed the belief that this might be a practical policy, to be developed logically from the agreements made at Simla.

'During our voyage here', said a Japanese member, 'we discussed several proposals on this topic. Our first was that, in order to diminish conflict, some rational division of labour should be made between nations. The second was that commercial spheres of influence similar to the old political spheres of influence might be established. For example, in the textile industry, Lancashire provides the best quality of product, Japan the medium, China and India a lower variety. A division of markets on this basis is to the profit of every one concerned. Why cannot such arrangements be made, not necessarily between governments, but between industries, to last for a period of years? Japan buys cotton from India and Texas, exchanges silk for it, in turn sells some of the cotton to south-eastern Asia. As the Indian people need more cotton, not so fine as Lancashire goods, and as Japan is nearer to Java and Sumatra, why not arrange with Lancashire to sell its produce some place else, and let Japan take India and the south-east of Asia. This would do away with useless friction.

'Another comment I should like to make is in regard to economic self-

sufficiency in Japan. Our people have been told by chauvinists that economic self-sufficiency would do away with the fear of isolation and encroachment. This feeling of encroachment is playing a powerful part in the psychology of our people. I do not wish to blame other countries, but we cannot be alone responsible. Tariff walls make Japan feel isolation and encroachment. The mental attitude of the Japanese to-day is somewhat like that of the Germans in the early years of this century, up to the War. I am not over-pessimistic, because I see a rise of energy among people awaking to a sense of nationalism but not of antagonism. There is a paradoxical element in the situation. Because our people feel so keenly the need of co-operation, they express a sense of isolation and encroachment. From this point of view, I am rather hopeful, and I feel that there will soon be a step towards more liberal views and international co-operation.'

A further suggestion for international action attracted considerable attention earlier in the conference. It came from an American geologist, who pointed out the permanent handicap under which the whole Pacific area laboured in its inadequate supplies of minerals necessary for industrialization. Japan is the chief sufferer to-day from this situation. Committed as she is to industrial expansion, she can only go so far before she comes up against the lack of raw material. A continued outward thrust for control over supplies of essential minerals, not merely coal and iron, but tin, lead, copper, and zinc, will be inevitable unless international agreement is first reached. Ideally, of course, the solution would be a guarantee of free and open markets for minerals, but fear, the speaker claimed, would drive nations to the effort to secure absolute control of certain sources of supply. The round table generally agreed with his conclusion that there was urgent need for constructive statesmanship in a revision of the whole practice of letting mining concessions, and a definite plan for assuring Japan of control over certain mineral supplies in eastern Asia.

There were some who feared that this type of planning would ultimately enlarge and intensify international economic conflict, by lifting it to the stage of national rather than group interests. Others, however, including several Japanese, believed that this would not follow. Japan's own efficient integration of her cotton industry made it easy for her to negotiate international agreements, as at Simla, a thing which the unorganized Lancashire industry would find exceedingly difficult. Japan had experienced other instances of this in cases of alleged dumping. Where international controversy had arisen, as with the export of rubber shoes and electric light bulbs, it was found that the exporters were quite unorganized. On the other hand, the Japanese exporters of crab-meat were well organized, able to control prices; and, when protests

were made in Washington against Japanese imports, were able to win their case by showing that their price policy had not disorganized the American market. They therefore believed that some kind of international economic planning, however great the obstacles and the disadvantages, would be preferable to the prospect of continual trade instability and the threat of recurring commercial disputes.

CHAPTER VII

THE UNITED STATES RECOVERY PROGRAMME

INTRODUCTION

THE BANFF Conference met in the latter half of August 1933, at a time when the United States Government's far-reaching plans for national economic recovery were just beginning to go into effect. The Blue Eagle had only just appeared in the shop windows of the country; many of the industrial codes were still in the process of being worked out; the epidemic of strikes and labour disputes in the eastern industrial regions had not yet become acute; the essentials of the agricultural recovery plan had been decided on, but the recent insurrections of the farmers in the West had not yet grown to alarming dimensions. The general level of prices in the country had risen appreciably, but the depreciation of the dollar in the foreign exchange market had not gone far,¹ and nothing was known of the Government's future currency policy, still less of the gold-buying scheme that was to be adopted in October, or the devaluation decree of January 31, 1934.

Discussions of the American recovery plan were thus followed with intense interest by all members of the round tables in spite of the fact that no one could prophesy with complete assurance what the next steps of the Washington authorities would be. Discussions were necessarily of a speculative character, and a good deal of time was spent on debating whether or not the recovery programme could work without a further depreciation of the dollar, and whether the policy of shorter hours and higher wages would not need to be reinforced by tariff increases against certain competitive imports. At the time these arguments were of considerable interest, since they clearly revealed the intense concern (mingled with anxiety) with which observers of other nations were watching the whole American experiment. However, inasmuch as some of the unsettled points of debate were later clarified by subsequent events in the United States, it has hardly seemed necessary to reproduce them here in full. A second fact which makes it less important fully to record the discussions is that much of the debate on the American recovery plan took place not in round-table discussions but in open forums and among a few selected individuals.

The procedure followed in this chapter has, therefore, been to give only a brief summary of certain points in the round-table discussions and the open debates which reveal public opinion in other nations on

¹ The dollar had gradually depreciated from April to August 1933 to roughly 30 per cent. below its parity, or to nearly the same level as the pound sterling.

the American experiments. The first part of the chapter is devoted to the evening lectures given by two American economists on the National Recovery Act. Since a number of important events have happened since these lectures were delivered, the authors have been given the opportunity to make a number of revisions.

PURPOSES AND OBJECTIVES OF THE NATIONAL RECOVERY ACT¹

What are the circumstances and conditions that have given rise to the National Recovery Act of the United States? What are its general objectives and purposes? What are some of the problems to which the administration of this Act will necessarily give rise?

The Government's Problem.

The new Administration came into power at what many have called the 'zero hour' in the United States. All the banks of the country were closed; the unemployed numbered something like ten or twelve millions of people; the system of relief was virtually at the point of breakdown. Looking forward it seemed apparent that, unless general improvement should occur in economic conditions during the spring, summer, and autumn of this year, great difficulties in caring for the people of this country and in preserving social peace would present themselves in such form in the coming winter as to be virtually impossible of handling. Therefore, it was incumbent on the new Administration to take drastic, courageous steps to restore prosperous conditions. Let me indicate the several stages in the development of the Government's programme.

The first task was to restore confidence in the financial situation. A plan for reopening the banks was the first requirement. Second, sound public credit was regarded as the cornerstone of economic recovery and reconstruction. Without a balanced Federal budget, it was felt, there could be no restoration of financial confidence in the banks and, for that matter, no restoration of general business prosperity. To this end taxes were increased, certain public expenditures were cut, and plans were laid for a more extensive curtailment of Federal outlays. Third, it was regarded as essential that the conditions of the farming classes be improved, and two plans were evolved for the raising of agricultural purchasing power. First was the plan whereby through Government guarantee of interest obligations the rate of interest on farm mortgages might be reduced and foreclosure eliminated. The other plan was the so-called Agricultural Adjustment Act, designed to raise agricultural prices—to be accomplished in part by restriction of output in basic lines of agriculture, in part by a tax borne by middlemen or consumers.

These three stages were the first to be developed. But it was seen that there could be no real revival of economic prosperity, that the success of these policies of re-opening the banks, of balancing the budget, and of reviving agricultural purchasing power was dependent on a recovery in industry.

¹ An address, given August 18, 1933, by Harold G. Moulton, a member of the American group, slightly abridged.

So long as some twelve million people were unemployed in the country, and without adequate purchasing power, there would be a definite limit beyond which the raising of farm prices could not go. So long as these twelve million people were unemployed, so long as something like 50 per cent. of the industrial capital was unemployed, so long as banking funds remained unemployed, so long as the industrial life of the country was paralysed, there could be no hope of balancing the Federal budget, nor of bringing about a real revival of agricultural prosperity. In consequence, it became apparent that the fundamental necessity was the putting of men back to work in industrial centres. This conception led to the formulation of the National Recovery Act.

Purposes of the National Recovery Act.

The automatic processes which have ordinarily been relied upon to bring industrial recovery, it was believed, could not now be counted upon to bring about a revival in time to prevent irremediable disaster. This depression had gone on for four years, and in its later stages had so reduced the volume of business and the earnings of corporations that it was impossible for them to meet the fixed charges which had been assumed during the preceding period of prosperity. This meant either that we must have a recovery of prosperity and higher price levels, or else that the capital structure which had been built up over recent years would have in large measure to be wiped out. Many people were inclined to believe that the elimination of the superstructure of bonds and stock was essential and not an unmixed evil. They were inclined to forget that, from the opposite point of view, every debt was an investment. These bonds and stock constituted the investments of society; and the elimination of a large part of the capital structure might well mean a collapse of the entire economic system. Consequently it was felt that the time had come to act, and act quickly, if disaster were to be prevented.

A word further with regard to the automatic processes which many have been accustomed to rely on for bringing recovery. There is one great difficulty during a period of deflation that has usually been overlooked. Every reduction of costs means an accompanying reduction of purchasing power and thus defeats the very possibility of expanding demand. Every individual, every industrialist, every banker, every institution in the land finds it necessary to economize, to reduce expenditures, in the face of declining income if financial solvency is to be maintained. But every reduction in my expenditures means a curtailment of some one's income. What is necessary to maintain individual solvency leads to collective insolvency.

The *individual* business man is helpless in the face of deflation. If he decides to go forward in his business when the rest of the business community continues to go in the opposite direction, then it is impossible for him to dispose of his increased output. Even if all the members of a given industry—steel, for example—agree to act together in increasing their production by four per cent., the result may be disastrous if other industries are moving in the opposite direction. So it was necessary to make sure that a whole group of industries

would go forward, more or less simultaneously. And this was why some form of government stimulus was regarded as necessary.

Now, what could the Government do to facilitate recovery? It was believed that the Federal Government might accomplish certain things by negative action and other things by positive action, both of which were incorporated under the N.R.A. On the negative side, by repealing the anti-trust legislation for the period of this emergency, at least, encouragement would be given to members of a given industry to unite in trade associations and to agree upon certain policies that would promote a forward movement. Second, it was felt that minimum standards might be set below which no business man could go in the reduction of wages or in the increase of working hours or in the cutting of prices. One of the most vicious factors in the last year or so has been the undercutting of wages and prices, which resulted not only in curtailing purchasing power but also in still further unsettling business conditions.

From the positive standpoint, it was felt that the Government might stimulate recovery in two ways. First, by a programme of public works. Indeed, a public works policy had been discussed from the very beginning of the depression, and a plan for a great programme of public works had been formulated prior to the development of the N.R.A. Public works are of aid both in giving employment to men working on a particular enterprise and in stimulating demand for materials which are used in the construction of public works. But a public works policy is a two-edged sword. On the one hand it stimulates employment: on the other hand it upsets the national budget. A programme of public works vast enough to accomplish a real revival of industry might well defeat the Government's other policy, that of balancing the budget. So, the public works programme was incorporated with the N.R.A. in the thought that it might be possible to keep the total public expenditures for public works very much lower than would otherwise be the case. In fact, the public works programme calls for \$3,300,000,000 only, whereas previous plans had called for anywhere from six to ten billion. The hope was that the \$3,300,000,000 contemplated might possibly be reduced if the other phases of the N.R.A. worked out satisfactorily.

The second positive process is to increase the rate of wages and to reduce hours in order to spread employment. It is the belief that an antecedent expansion of mass purchasing power will increase demand through retail stores and thus stimulate industrial recovery.

Is it Inflation?

Two or three specific issues always arise in connexion with discussions of this problem. In the first place, does it mean inflation? Inflation is a word that has many interpretations. There is inflation which means merely a rise in prices, resulting from prosperous business conditions. Then, there is Inflation with a big 'I' which is of sinister import. I want, therefore, to show that there are several different ways by which rising prices or inflation may be brought about.

The first of these is an ordinary commercial process. I am going to call it *commercial inflation*. By commercial inflation I mean an increase in business and an accompanying rise in prices, where the money comes from ordinary bank loans. In order to expand production, business men need to borrow more money from banks; and it is through the making of bank loans and the disbursements of these loans for the purchase of raw materials and the payment of wages that additional money gets into circulation. This *may* mean a rather slow rise in prices, not extending very far; but it has on occasion meant a rapid advance in prices. The N.R.A. is designed to encourage business men to expand their business operations so as to put additional men to work. This means that they must buy additional quantities of materials and increase their pay-rolls. The funds required would come chiefly from ordinary banking sources. The process is thus commercial in character. Government funds are not involved, except in connexion with the public works.

The second process of inflation is one with which the United States has also been experimenting: *inflation through exchange depreciation*. As yet, there has been no legal devaluation of the dollar or reduction in its weight, that is, no fixation of a new relation between the dollar, the pound, the yen, &c. But the dollar has nevertheless been allowed, even encouraged, to depreciate in the exchange markets. When the dollar depreciates it affects prices which enter into international trade. For example, exporters to the United States, knowing they are going to be paid in dollars of less value than before, will demand higher prices for commodities. Hence this decrease in the value of our currency in comparison with that of other countries sets into operation forces affecting the price of certain specific commodities—those entering into international trade. From this point on the process still remains that of commercial inflation. The funds with which to finance business on a rising price level must again come from bank loans. In its initial stage, in its inception, the process is different from the preceding case; but in its working out government funds are not involved—the process is still commercial in character.

How far such an inflation will extend depends upon fundamental economic conditions. When the pound depreciated in September 1931, during the first five or six months the general level of prices rose about 5 or 6 per cent.—the rise being of course primarily confined to the articles entering into international trade and notwithstanding the importance of the international trade. In the case of Great Britain, however, the rise of prices was not continued in the face of world deflation. In the course of the next nine or twelve months, the entire rise was, in fact, lost; and only in the negative sense could it be said that Great Britain had a price rise: British prices remained stationary, whereas prices in other countries were about 10 per cent. lower. I mention this case to indicate that many factors have to work in the same direction if the price stimulus is to extend to the entire price structure.

The third form of inflation is *fiscal inflation*. This is the inflation with the big 'I'—with sinister and fearful implications. Such inflation results from an unbalanced budget, in consequence of which the Government has to print

paper money not redeemable in gold, with which to meet its obligations. It may merely be used to pay interest on government bonds; but it may also come to mean very shortly the paying out of vast sums of money for general relief. Now, the N.R.A. was definitely designed to head off fiscal inflation—the dangerous kind of inflation. Unless it were possible in the course of the year 1933 to bring about a real business recovery, during the winter of 1934 the fiscal situation would be hopeless, because of the burden of relief that would have to be assumed by the Federal Treasury. Therefore, when I am asked, ‘Does N.R.A. spell inflation?’ I have to reply, ‘It does not mean inflation in the dangerous sense of that word’. Its purpose is to bring about a recovery of general business and rising prices, thereby arresting fiscal inflation and the general disintegration of government finances. It is this fiscal inflation which, in times past, and more recently in various countries, has completely wrecked the economic and social life of peoples. It is this inflation which needs to be prevented at all hazards.

Does N.R.A. necessitate Dollar Devaluation?

The next question that I wish to raise is whether the N.R.A. and its administration inevitably means a devaluation of the dollar. So far as the quantity of gold and other forms of currency are concerned, the United States can maintain a price level very much higher than that of the years immediately preceding 1929—without any resort to bi-metallism, without any reduction in the weight of the dollar, and without corraling any more of the world’s gold supply. We have a superabundance of gold, or basic money, with which to support a high price level.

If the price level in the United States were raised above that of other countries as a result of pressures exerted in this direction, trade readjustments would necessarily ensue. The higher prices in the United States would make this a favourable market in which to sell, thereby stimulating imports, particularly of manufactured goods. On the other hand, it would be more difficult for American producers to compete abroad. Whether such trade readjustments would, in fact, result in an unfavourable ‘balance of payments’ no one can say. The United States has normally a large favourable balance; and certain items, notably tourist expenditures abroad (which are equivalent to imports), might well be increased. Moreover, credit transactions play so large a role in the modern world that they might well offset any adverse balance arising from trade and service accounts, and thus prevent an outflow of gold. Moreover, the imposition of higher tariff barriers, which the Act itself contemplates, would restrict an increase of imports and thereby prevent the suggested trade readjustments. Consequently, so far as one can foresee, there is no reason to believe that the N.R.A. policy would necessitate any modifications in the weight of our dollar.

I hope I shall not be misunderstood in this connexion. I am not saying we may not modify the weight of our dollar, for policies are not always based upon adequate understanding of the situation: I merely say that there is no necessity for any such modification in the near future. The essential purposes

of the N.R.A. in stimulating recovery can be accomplished without depreciation, on the basis of the old gold standard.

The N.R.A. and Economic Isolation.

Does this new policy mean that the United States necessarily embarked upon a policy of economic isolation? This was certainly not the original intention of the N.R.A. This Act was not initiated as the result of any belief that the United States would increase its prosperity by cutting loose economically from the rest of the world. So much for intent. But in its working out, may it not inevitably lead to that result? I am fearful that it will tend towards a reduction of international trade. I say 'fearful', because I think that such a result would be a matter of grave misfortune to the United States. Why do I think it may lead in the direction of economic isolation? First, because the effort is being made to bring about a sharp advance in wages, costs, and prices. The idea seems to be to get back to the 1926 price level in one or two jumps rather than to accomplish this result gradually. Now, I think it is a mistake for the United States to try to bring about a price rise too rapidly, though I may be mistaken in this judgement. This is a time when all of us must be very humble and tentative in judgement of anything so intricate in character as this. But if it does lead to a more rapid price rise in the United States than occurs elsewhere then we shall have an increase in competition of foreign manufacturers in American markets and an inevitable tendency for particular groups to demand higher protective duties. In that event, the law permits the President to inaugurate higher duties if necessary.

But this is only the first step; and here the complicating difficulties begin. An increase in the United States tariff rates means an inevitable reduction of European sales in our markets and a consequent reduction of capacity to buy American foodstuffs and raw materials. And if it means a reduction of foreign demand for cotton, for example, it means a fall in the price of American cotton and consequent economic prostration in the cotton belt. This, in turn, means a reduction in the capacity of American manufacturers to sell in domestic markets and may well defeat our national agricultural programme. In fact, repercussions resulting from such a policy might well have serious consequences. The great requirement is to work out this programme gradually, keeping it in close articulation with that international recovery to which it may so strongly contribute. Domestic recovery and international recovery are inextricably bound together.

LABOUR AND SOCIAL ASPECTS OF THE N.R.A.¹

The N.R.A. is not based upon a complete philosophy of economic life as are experiments of the same kind in other countries, nor is it based upon as clear cut a method of procedure. When the law was passed it was clearly

¹ An address given on August 18, 1933, by Lewis L. Lorwin, a member of the American group, slightly abridged.

understood in Washington that its character would in large measure depend upon what its administrators made of it.

The Variety of Codes.

We have now a considerable number of codes. Some have been approved and are to become effective in the near future; others are still pending. The interesting thing is the variety of the scope and provisions in these codes. Some are very brief and contain almost entirely clauses specifying minimum wages and maximum hours. Such, for instance, is the code of the automobile industry. On the other hand, we have elaborate codes, such as were adopted by the textile industry, the clothing industry, and the electrical supplies industry. In these codes provisions are made for unemployment insurance funds, for fair practices in the selling of the product, for special adjustment boards to compose differences between labour and capital, for uniform accounting methods and reports, and for special planning boards to study methods of stabilizing the industry. In between are codes which cover a wider or narrower range.

This variation in scope is accompanied by a diversity of wage rates and hours. There is an impression abroad that the codes are uniform in their provisions for hours and wages. That needs correction. The codes reflect the diversity of conditions in American industry. The code of the laundry industry, for instance, provides for a minimum wage of 20 cents an hour, and the automobile industry for a minimum of 40 to 43 cents an hour, according to size of city, the women's clothing industry for minimum rates of 55 cents to \$1 an hour, according to skill and craft. Hours vary—being, for instance, 40 for the women's clothing industry, 48 for the automobile industry, and so on. A similar and important diversity characterizes the codes with regard to organized labour. A few of the codes are practically collective agreements between the employers and the workers. Others cite Clause Seven of the Act which provides for collective bargaining and proceed to specify that this is to be interpreted so as to mean that the industry will maintain the 'open shop'. That, in American parlance, means that an employer need not deal with unions and is free to hire non-union men.

Some of this diversity is explained by the way in which codes are prepared. A code when first presented to the N.R.A. is not the result of any process of negotiation between capital and labour. It is the work of the employers' association.

The latter, in preparing the code, may be, and is, guided by various considerations—conditions in the industry, its desire to bargain, its idea of what Washington will say, and so on. Of all the codes which have been submitted to the N.R.A., only the textile was a result of co-operation between workers and employers. In several industries, the labour unions prepared their own codes which they submitted as counter-proposals to the employers' codes. This took place in the cloth industry. The United Mine Workers also submitted a most detailed and comprehensive code to counteract the proposals of the mine operators. In other words, the process of collective bargaining

begins only after a code has been submitted by an industry and comes up for a public hearing before the N.R.A. The bargaining is then between the employers' association, the workers, and the Government. If there is a labour union in the trade or industry it is allowed to speak for the workers. In the unorganized industries, the N.R.A. has permitted members of the Labour Advisory Board to speak for the workers. On one occasion, the Secretary of Labour herself presented the case of the workers. Generally, the administrators of the N.R.A. have presumably aimed at finding the real facts of the situation and to amend one or another code in accordance with what was regarded as the best interests of the industry as a whole.

How Codes are Made.

So far there has been a refreshing informality in the code hearings at Washington. The deputy administrator for the particular industry on which hearings are held sits on the platform with members of the Labour Advisory Board on one side and members of the employers' advisory committee on the other. The hearings are public and so far have drawn considerable audiences. Interest has been keen partly because of the drama presented, partly because these hearings provide an excellent way of getting a picture of an industry. The procedure is for the deputy administrator to call upon the representatives of the employers to summarize the provisions of their code and to make additional statements. Then the workers or any one else interested in the industry is asked to make whatever statement he or she may desire to make. The statements are frequently interrupted by questions from the deputy administrator or his advisers. Emphasis is laid on making the statements factual and not oratorical. When one recalls that Washington has been a warm place these past two months, and that captains of industry, labour leaders, and government advisers have had to throw off their coats and roll up their sleeves to keep from melting away, one may have a picture of proceedings carried on in an informal, simple, and so far friendly manner—though lately, at some of the hearings, according to newspaper reports, there did develop heat that did not have its source in the luminous body in the sky.

The hearings are only the first step in the bargaining process. On most of the codes the hearings have lasted a day or two. The further adjustments were then entrusted to special committees. It is the task of these committees to produce a code that will be accepted by all parties concerned and which will gain the approval of the N.R.A.

Informal as the proceedings have been in Washington, they have not been either entirely smooth or simple. Codes submitted by employers have been rejected for one reason or another—that is, were not even allowed to come up for a hearing. In the N.R.A. there is a division which examines these codes; and, unless they have a fair degree of acceptability, they are returned for changes. After hearings are held a similar process may take place until a code is evolved. It is claimed that the coal industry has so far submitted twenty-seven different codes.

Necessarily, all this work calls for a considerable staff. The N.R.A. in the

two months of its existence has built up an organization which is still in a state of flux. It has a research department of its own, a publicity department, men in the field. The structure briefly is as follows. At the top is the Administrator, General Hugh S. Johnson. He has a number of deputy administrators for specific industries who in turn have assistants. Each deputy administrator is aided in the code hearings by representatives of employers and labour. A Labour Advisory Board watches over the interests of labour. A National Labour Board settles disputes arising either in the process of making the code or of enforcing it. All told, the N.R.A. probably has several hundred employees, including minor clerical officers.

A National Campaign.

Because of the desire to proceed amicably and with as little compulsion as possible, progress in the adoption of codes has not been rapid. At the present time, codes have been approved only for a few major industries, such as textiles, clothing, and the manufacture of electrical supplies. Most of the other approved codes are in small trades or industries. The large basic industries, employing hundreds of thousands of workers each, such as coal, oil, iron and steel, automobiles, are still in the process of getting their codes approved by the N.R.A. According to our census we have over 300,000 major industries. It is estimated that hundreds of trade groups would have to get codes.

It was the fear that delays in code making would retard the process of recovery that prompted President Roosevelt to issue the now famous blanket code for all industry. This code took the form of a Re-employment Agreement between the President of the United States, who is the source of authority under the N.R.A., and each individual employer. The Agreement contains 14 points—14 seems to have become a magic number in American politics. This Agreement prohibits the employment of any person under 16 years of age (with certain exceptions); fixes the hours of workers at 8 in any one day or 35 a week, with a maximum of 40 hours for 6 weeks; limits the hours of office workers to 40 a week; fixes a minimum wage for office workers of \$12 to \$15 a week according to size of city; fixes a minimum wage for workers at 40 cents an hour or at least the hourly rate as of July 15, 1929, but in no case less than 30 cents an hour. The Agreement further provides that the employer shall not increase the price of his commodity by more than is made necessary by the increase in cost. Any employer who signs this agreement gets a copy of the N.R.A. emblem—the Blue Eagle—which carries the slogan 'WE DO OUR PART'. This emblem he may place in his factory, shop or store, or mark on his goods; and he is thereby entitled to the special patronage of the consumer. This blanket code is to be in operation until the codes for the different industries are adopted.

It is in connexion with this blanket code—not the industrial codes—that the present campaign under the Blue Eagle is proceeding in the United States. In many respects, this campaign is modelled after the War campaign for selling Liberty Bonds, for food economy, and for enlisting the support of the people on behalf of the President's policies. In the various states and cities,

special N.R.A. committees are being organized. Most of them are under the direction of business men and prominent citizens. In New York and elsewhere, these N.R.A. committees have co-opted labour committees to help in the task of enforcing the President's Agreement and of urging the people to buy under the Blue Eagle. Some of these committees are regarding themselves as *vigilantes*—receiving complaints, making investigations, &c. The violations reported are numerous and varied. In some cases, employers force their employees to take vacations without pay. Split shifts are arranged to allow for a longer working day. In some cases, the employers work their employees twelve hours a day and then suddenly discharge them. The ingenuity of man to violate a law is unlimited. This gives the impression of a war psychology, and in certain respects it is. The slogan is—to make war on depression. The leader is a former army general who has a genius for striking phrase and apt simile. The people are aroused by the desire to help a President who is immensely popular. Under such circumstances, the situation cannot but be saturated with the enthusiasm, real and stimulated, which characterizes all great social movements.

Undoubtedly this campaign is merely a passing phase of the application of N.R.A. It will pass with the adoption of the industrial codes and with the elaboration of orderly methods of enforcement. Under the Recovery Act, the President has ample powers to enforce the provisions of the various codes. But just how these powers will be delegated and used is one of the big issues. It is the intention of N.R.A. to use no police power, to encourage self-government by industry. Those who are familiar with labour laws will agree that no government by itself can enforce a large system of industrial codes. It is assumed by many that the trade association may be adequate to the task. But on the basis of experience with other legislation, some of us believe that there is no way of enforcing the codes—especially as they relate to hours, wages, and working conditions—except through the extension of labour organizations.¹

Larger Implications of the N.R.A.

The problem of enforcement leads to the more general questions—Will the N.R.A. work, and under what conditions? Dr. Moulton has presented some of the financial and trade factors involved in the attempt to answer these questions. In addition to the issues he raises, one may add a number of others which will be no less important. How great will increases in wage rates be? Will rises in wages be accompanied by improvements in technique and lower unit costs? Will it be possible to keep the increase in wages and salaries a jump ahead of increases in commodity prices? Will business adjust itself to more moderate profit margins? Will the reduction of hours be sufficient to re-absorb the unemployed? Looking farther ahead, there loom the questions of re-adjusting wages and hours to changing conditions of production—all of which involves new techniques which have yet to be evolved.

However, above these and other specific and technical questions there rises

¹ See articles in the *Current History Magazine* and *Survey Graphic* for September, 1933.

a larger and at the present time more important question—namely, what is the meaning of the Act? For, our decision as to whether the Act succeeds or fails will depend upon our idea of its purpose and possibilities. Though the purpose of the Act is stated in its Preamble, there is no agreement on the matter. One might mention first the extreme critical view taken by radical, socialistic, and communistic elements. They see in the Act nothing more than a continuation of the share-the-work movement and a process of disguised wage cutting and deflation. Their idea is that, while certain rises in wages are demanded in small towns and among low-wage groups, the readjustment in the wages of all workers will result in reducing the average total earning of the workers as a whole. They also point out that the N.R.A. is merely another stage in the struggle of capitalism to maintain its power, and claim that the N.R.A. is but a first step towards capitalistic Fascism.

A second view of the N.R.A. is to regard it primarily and essentially as a method of accelerating the process of recovery. This view probably actuated the framers of the Act. It is now stressed by all those who see in the N.R.A. the potentialities of a new economic procedure which is not to their liking—economists of the traditional schools, employers who are annoyed by the process of code making and who fear further government regulation of industrial relations, labour leaders who are bound to the old-time philosophy and who fear that government boards will keep the wages of the skilled workers down and will prohibit strikes. These elements are accepting the N.R.A. as an inescapable nuisance, and their hope is that it may not be necessary for long. Most of them hope that the law will not outlive its time limit, fixed for two years. Some of the codes submitted by employers specify that they agree to the provisions only during such time limit.

A third view of the N.R.A. sees in it not only a method of recovery but also a means of further industrial and economic integration. Those who hold this view also hope that the N.R.A. is temporary and that it will be discarded before its time is up. But they expect and want it to do two things while it is here: to break down the obstacles to industrial integration embodied in the Anti-Trust Laws, and to remove the hurdles in the way of labour and social legislation presented by the existence of 48 states. Some of those interested in labour legislation believe that the N.R.A. offers a chance to obtain in a short time labour and social insurance laws comparable with if not superior to those of the most advanced industrial countries of Europe. There is a basis for this view. In the two months of N.R.A., a big step has been taken towards the reduction of child labour. The ideas of a minimum wage, of a general 8-hour day, and of unemployment insurance by industries have made enormous strides. At the same time, the N.R.A. has also done much to break down the idea of state lines in the regulation of business. Public utilities regulated by state bodies have been brought under the N.R.A. And the other day, General Johnson, in his characteristic way, declared that 'the Blue Eagle cannot see a state line'. If this view is correct, then the N.R.A. may be a special trick which will give the United States a cartellized industry and a system of social legislation for the worker.

But there is still a fourth view which refuses to accept the N.R.A. as a temporary expedient and holds that it is merely a first step in a new direction. From this point of view, the N.R.A. is the American phase of an economic and social transformation which is world-wide. In the United States the word 'revolution' is being used quite widely in this connexion to designate the profound though peaceful changes which are taking place. On a world scale, this revolution is manifesting itself in three major facts: the breakdown of individualistic economics in Western countries; the rise of the power of the masses within nations; and the shift in the relative position of the different countries of the world. These economic and social shifts are accompanied by changes in ideas, in customs, and in ways of doing things—in brief, by a cultural revolution which, in turn, reacts on economic and political conditions.

If you ask for any single cause of this revolution, it may be designated as the self-realization of the basic contradictions in modern democratic industrialism—the contradictions between buyer and seller, between worker and employer, between city and country, between investor and borrower, between industrial and non-industrial countries, between empire and colony. What is significant is that this transformation which is proceeding throughout the world has two distinctive features: one is that it is being carried on at a time when no single group in most nations is powerful enough to direct it alone; a second that it is proceeding as a reaction against the faith in the beneficent guidance of individual choice which was the ruling idea of mankind for over a century. Because of this, the economic and social revolution has seized upon the ideas of national unity and of conscious control as alternatives to individual initiative and *laissez-faire* and has embodied both ideas in the concept of national economic planning. This view is the outlook of those who think that the next stage in economic evolution is what may be called a social progressive system which will utilize the ideas of collective control and of social welfare—the two greatest contributions of socialism—to rebuild our economy, in such a way as to reconcile security and freedom.

Which of these four points of view is correct will be revealed as the workings of the N.R.A. become clearer. But whatever becomes of the N.R.A., it will be a landmark in history as the enunciation of an economic doctrine which summarizes the hopefulness and faith of the American continent. It is a doctrine based on a realism which sees economic processes in their socio-political setting. It is a doctrine based upon a theory of mass purchasing power as a condition of steady and full utilization of productive resources. It is a doctrine which emphasizes the possibilities of conscious group action for the purpose of promoting orderly economic progress. It is the economic doctrine of the twentieth century.

ANTICIPATED CONSEQUENCES

The purpose of the two addresses reproduced in the preceding pages was briefly to describe the recovery programme of the American Government and to explain its philosophy and aims. Both speakers disclaimed

any intention to appraise its feasibility.¹ Other American members of the Banff round tables were less reticent in discussing the probability of success or the further consequences to the economic life of the nation that were likely to spring from this programme, or specifically from the National Recovery Act, by general consent referred to as the most far-reaching part of it. Most of these members were frankly on the defensive and, while admitting that the programme was not perfect, invited the critics to suggest something better. To the question, 'What would you have done if you had been in the President's place?' a British member replied, 'I would have done nothing', and then proceeded to develop the argument that, after President Roosevelt's decisive and well-judged action in restoring confidence after the bank crisis, the stage was well set for a substantial degree of general recovery. Distinct signs of that recovery, it was asserted, had shown themselves in the rise in prices as well as in substantial improvement in certain important industries. But now, with the ambitious programme of labour codes and regulation of industry which the N.R.A. was offering, a new element of uncertainty and mistrust had been injected into the situation. In reply to comments of this sort, some American members went to considerable pains in emphasizing the imperative need for decisive and far-reaching action which confronted President Roosevelt, not only in the stress of the bank crisis when he assumed office, but also after that immediate menace had been averted. It was not merely a question of releasing frozen deposits; it was a question of raising prices and restoring working-class purchase power over a vast front. Without a profound readjustment of this sort, they insisted, the industry of the country would be absolutely unable to support the tremendous burden of debt which encumbered it. These debts, which had been contracted in the earlier period of higher prices, when the real burden of the debt was consequently much smaller, now amounted to something like 235 billion dollars, including both public and private debt. A great deal of this amount was fixed in the form of bonds, so that its real weight increased as the general price level fell. Without a policy which would diminish this huge debt burden, no temporary measures for restoring confidence in the banks could hope for permanent success.

In addition to this fact, they argued, the President had also to take account of powerful psychological influences which might be called irrational but which were none the less real. It was because of these less tangible factors that the beginning of the inflationary programme was

¹ It should be mentioned that the Brookings Institution, of which both these speakers are staff members, though situated in Washington, D.C., is in no way connected with the Government of the United States.

signalized by abandoning the gold standard, even though many experts had contended that there was no sound economic reason for doing so. By taking such a decisive step, and also by his apparently summary rejection of the proposals for currency stabilization suggested at the Monetary and Economic Conference in London, the President had probably conveyed to the public the idea that there was to be a general upward movement in American prices and business, and had done so more effectively than he could have in any other way. He had, therefore, given a stimulus to increased buying by merchants who wished to safeguard themselves against an anticipated rise in prices. They admitted freely that many of the measures taken by the new Administration at Washington were of an extempore character, and that some of them were shocking to the orthodox leaders of finance. They felt, however, that it was not only fair but even necessary to give him full public support in his programme, and even considered that by the very experimental nature of his policy and by his refusal to stick rigidly to any one theory of action, he was commanding the confidence of the public generally if not of the leaders of finance.

These opinions were echoed in the remarks made by a representative of American Labour. The economic and social policies embodied in the N.R.A. were, in his opinion, no more than a fulfilment of a thesis which organized labour in the United States had proclaimed for a long time, namely, that a high level of purchasing power was essential for prosperity in a country so much dependent on mass production methods as the United States, and that the only way to secure the necessary volume of purchasing power was to have it distributed to those parts of the community which could be counted on to spend it for the most part on consumable goods—which, roughly speaking, meant the working classes. He therefore looked with great confidence to the enforcement of the new labour codes and to the provision for increased wages and shorter hours. The United States could not expect to maintain permanently an unemployed population of ten or fifteen millions. These people would have to be cared for, and it would be the responsibility of others to care for them. In the United States perhaps least of all countries was there any ground for the claim that there was insufficient production to supply the needs of the whole population. Under such circumstances, the only thing was to work out some new method of distribution. If that new method was not through the N.R.A., then it might possibly come in some other way much less pleasant for the community as a whole.

In starting an experiment of this kind, he said, the American Labour movement felt more confident of success because of the fortunate posi-

tion of the United States in being more nearly self-sufficing than probably any other country in the world. It could therefore afford to make economic experiments which would mean disaster to other nations more intimately affected by the forces of world trade and foreign competition. Furthermore, American Labour was confirmed in its support of the policy of self-sufficiency by the belief that standards of living in other countries were almost universally below American standards, and that any scheme of close international co-operation might work to the detriment rather than to the advantage of American wage-earners.

There were differences of opinion among round-table members as to the validity of the self-sufficiency doctrine. A number of American members maintained that there was no final evidence to indicate that the United States Government had definitely embarked on a policy of domestic recovery without reference to conditions elsewhere in the world. The theory underlying the N.R.A. provisions was that recovery could only be promoted through the re-absorption of labour; and that this was not a matter in which there could be international co-operation in the first stages. But once labour had begun to be re-absorbed, and purchasing power in the form of wages had begun to expand, this would lead to an increase of purchases of raw materials, some of which would be imported. In this way, it was expected that the N.R.A. might lead definitely to an improvement in foreign trade. There was evidence already to show that a stimulus of this sort had been given to the import trade.

As against these anticipated benefits, however, there were a number of equally grave disadvantages, both to the United States itself and to the countries which traded with it. Misgivings on this score were admitted by American as well as other members.

'There are two schools of thought on this question', said Dr. Moulton. 'The first is that we should try, through the N.R.A., to raise wages and prices as fast as possible in a few months to something like the 1926 level. Obviously, if these prices should go up too rapidly and get ahead of similar movements in other countries, we should be faced with a dilemma in our international trade. With increased cost in our own industries, there would be a strong tendency for manufacturers here to insist on increases in tariffs to protect them against imports produced at lower price levels in foreign countries. Under the terms of the National Recovery Act, the President has, in fact, been given power to levy such tariff increases. At the time it was passed, there was a general belief that this power would not be used, but it had to be included in the code in order to satisfy certain business interests in the country.

If, however, some such action should prove to be necessary, either for promoting the policy of self-sufficiency or for other immediate reasons, it will obviously benefit the particular industry concerned. But, on the other hand,

it will tend to work at cross purposes with the other elements in the recovery programme. It is quite true that some 90 per cent. of our trade is domestic, but merely to say that does not mean very much, because for some of our industries foreign trade amounts to as much as 45 per cent. of the total business. It is, therefore, foolish to talk as though a drastic curtailment of our imports would not have any adverse effect in this country. One need only look at the example of the decline in the price of cotton which followed the falling off of world trade to see how an important area of the United States would be immediately affected by any attempt at *Autarkie*. And, of course, the economic prostration of the South would soon be reflected in the decline in purchases from the industrial North of this country. There are many other instances of this kind of connexion. Any effort to bring about a drastic reduction of imports by raising the tariff would work seriously against the whole programme for agricultural recovery throughout the country.

'The question as to whether it will ultimately be necessary to use the tariff in this way depends, of course, on what currency policy is adopted. If it should be decided to depreciate the dollar a great deal further, that in itself will tend to act as a tariff barrier against imports, and will to some extent automatically encourage exports from this country. But it is well known that the President's advisers are divided in their opinion as to whether a deliberate depreciation of the dollar should be encouraged. If there is no depreciation then undoubtedly there will be very strong pressure brought to bear on the Government to have tariffs increased.'

INTERNATIONAL REACTIONS

Any ideas which some American members may have entertained to the effect that the recovery programme could be worked out at home without important reactions abroad were not shared by other members of the conference. Nor were they greatly impressed by the arguments in favour of the policy of self-sufficiency for the United States. To many of them the fate of the American recovery programme and the future policy of the American Government with regard to the dollar seemed the outstanding and certainly the most important questions for the Pacific area as well as for the world at large. Up to that time it was not possible for any one to point to specific industries which had been adversely affected by the American recovery programme; but a number of cases were cited in which very lively fears were entertained as to the possibility of tariffs or other restrictions being raised against them. Japanese members stated that there was a widespread fear among the fish canners of their country that increased duties would be imposed on their products exported to America at the instance of American fishing interests on the Pacific coast. Canadians remarked on the impression shared by many Canadian manufacturers that they would be obliged, for their own safety, to comply with many of the provisions of the

N.R.A. codes if they wished to preserve their markets in the United States. In certain selected Canadian industries, where the bulk of the product was shipped to the United States, there had already been a move to apply the conditions of the N.R.A. codes with respect to hours and wages in order to forestall complaints from American firms on the score of unfair competition. It was also stated that a tendency of this sort was evident in the policy of the Canadian railways, even though they were not as a whole in severe competition with the American railway systems. But in the past the general policy of both Canadian and American railways with regard to wage increases or wage cuts had tended to move along parallel lines. Consequently, there had been considerable opposition from railway labourers against a wage cut recently proposed, since there was no similar cut on the American side, even though they had accepted previous wage cuts when these were duplicated in the United States. Now, under the terms of the N.R.A., there were to be no further wage cuts in the railways, and the effect in Canada was to harden the feeling of existing labour organizations against any further reductions.

A similar effect might perhaps be expected, it was suggested, in the Canadian paper and pulp industries, whose largest market is in the United States. Here the connexion is all the closer because half of the capital in this industry is American. In this particular instance, however, there was an offsetting factor in the strong vested interests of American newspapers in securing Canadian newsprint as cheaply as possible; so that any attempt to put a tariff on imports would meet with serious opposition.

It was, perhaps, not surprising that the greater part of the criticism directed against the international effects of the American recovery programme should come from British members. It was not merely because Great Britain, as one of the world's greatest trading nations, was more likely to be affected by developments in the United States than any other country, but because Great Britain herself had already had two years' experience of currency depreciation and was in such a position between the gold-standard currencies on the one hand, and the dollar on the other, as to be very directly affected by any sudden change in American currency policy.

British members, listening to their American colleagues expound the theory that American prices could be made to rise generally if the dollar were depreciated, naturally recalled how British wholesale prices had failed to rise in the same proportion as the pound sterling had depreciated, and how the net result had been a temporary increase in British prices of only about 10 per cent. and a decline in the world prices of

important commodities which were being sold largely on the London market.

The most systematic criticism of the American recovery programme was made by an English economist, Professor T. E. Gregory:

'The question of whether the N.R.A. is going to work or not has nothing to do with nationality, but depends on a theory of economic life which is not peculiar to the United States. Indeed, one of the things which makes me suspicious of the programme is the close family resemblance it bears to other capitalistic plans: and the prevalent idea that it is distinctly American in its philosophy is only possible because the American public is unfamiliar with European literature on the subject.

'Some years ago, in a paper dealing with rationalization and technological unemployment, I discussed the relation between production and improved social conditions in the following terms:

'Shorter working hours and high wage rates are, of course, frequently defined, not on the legitimate ground that society can afford them with increasing productive powers, but on the ground that they are the correct means of reducing unemployment because they spread work and stabilize working-class purchasing power. Unless accompanied by increasing productivity, however, they are incapable of achieving these results, for a shorter working day without a larger output would either involve low wages or rising costs per unit of output: and rising money wages without increased productivity would also result in disequilibrium.'

'I did not imagine when I wrote these lines in 1930 that I should be quoting them in 1933, but I think they have a significant bearing on the American recovery programme.

'There are two aspects of the N.R.A. which ought to be kept clearly apart. First is the social reform aspect, and from that point of view it is undoubtedly possible to define the provisions of the Act. It introduces into the social legislation of the United States a number of very necessary reforms. It is obviously a good thing that trade unions should be recognized, and that abuses of child labour should be corrected. But I do not find that a very revolutionary thing, for it has been a common place of social reform in European countries for many years. The second aspect is that by which this particular place of legislation is being mainly advocated in the United States. It is being commended to the American people as the means by which the depression can be overcome.

'Now, one of the many things which makes me sceptical about short-cut economic remedies is that the theory of recovery by means of an extension of purchasing power is exceedingly ambiguous: for it makes a great deal of difference in one's opinion of the policy whether one understands by the phrase "increase of purchasing power" that people now in employment have been given higher wages or whether more people are employed. Similarly, it is necessary to consider what precisely we mean by the increase of prosperity in the United States, and also what phenomena the authors of the N.R.A.

expect to regard as indices of increased prosperity. Obviously, if it is merely a question of increasing employment, that can be brought about simply by the process of restricting imports. On the other hand, the new legislation providing for shorter hours and higher wages may, perhaps, bring a temporary increase in employment and thus in working-class purchasing power; but if in the long run it reduces the necessary margin of profit for enterprise to be carried on, it will not bring about ultimate prosperity.

'A further point which needs to be cleared up is concerned with whether we are thinking merely of the provisions of the Act itself, or whether we are thinking of the environment in which it is expected to operate. From this second point of view there are, of course, various reasons why the N.R.A. would not be inconsistent with the return of prosperity in the country. It might, perhaps, be due to the fact that prosperity was conditioned by underlying tendencies which were already in existence before the law was passed, and the recovery may come quite independently of the N.R.A. Similarly, it is possible that prosperity might come, not because of the direct effects of the Act, but because it induces a change in American psychology and in American habits generally. Part of the depression there has undoubtedly been due to the psychological reaction of the American people themselves. I refer particularly to the great increase of hoarding. If the Act, by one means or another, induces people to dishoard, it will, to some extent, induce a return of prosperity. It may be that because of the Act the currency policy of the United States will become extremely uncertain so that people will be stampeded by fear of inflation into converting money into goods or into equity shares, which will bring about a rise in commodity prices and in stocks. But in all these cases it will be very difficult to say with certainty whether recovery came because of the N.R.A. or not.

'It seems to be the philosophy of the N.R.A. that employers must not raise prices more than costs rise. But the characteristic feature of a period of depression like the present is that the level of costs is already higher than the level of prices; it seems to me, therefore, that the real intention of the Administration is to maintain prices higher than costs, which is the reverse of what it professes. Obviously, the simplest way of raising prices above costs is to maintain wages constant and then to inflate; and it seems to me that ultimately this course will have to be adopted in the United States. Admittedly, it is not implicit in the Act as it stands: but if the Act is really going to work it must be imposed on it. The Act itself, unaccompanied by any other measures, does not seem to me to be capable of producing what is expected of it by the American public.

'Suppose we take a single industry and consider that legislation is passed forcing employers to take on more workers and to raise wages. They may succeed in making more profit, but obviously the higher prices which the rest of the community will have to pay for the products of that industry will divert purchasing power away from other employers, and consumers will not be able to spend so much as formerly on other things. Therefore, it seems to me that one effect of applying the N.R.A. codes will undoubtedly be to

increase the volume of employment and wages in industries which are in such a position that they can squeeze the rest of the community. Parallel with an improvement in these favoured industries, there will be a gradual decrease of employment and wages in other industries not so strongly organized or not so strategically placed. If we go farther and suppose that all industries are well organized it may take a long time for the adjustments to work out: but in the end the burden would fall on three unorganized sections of the community; namely, first, those who receive fixed salaries, such as professional men; second, investors in particular industries; and third, employers who have been forced to accept the N.R.A. provisions against their will. It is, therefore, quite possible that the programme would work, in the short run, at the general expense of these three groups. Any procedure which will tend to narrow the working margin of profit which keeps men in business may turn out to be disastrous. We have had a striking lesson from central Europe after the War of the dangers of a policy which leads to the consumption of capital.

In my view, the N.R.A. cannot be made to work without further depressing the value of the dollar on the foreign exchanges. The reason is clear. If the volume of purchasing power is allowed to expand so that there is an increased demand for goods in this country, it will make the United States a good country to sell to and a bad one to buy from. And if the Government wants to protect its industries now working under the higher costs imposed by the codes it will either have to raise a new tariff wall around itself or else achieve the same thing by depreciating the dollar. I do not believe that President Roosevelt wants deliberately to add to the tariff walls of the world; and thus, it seems to me, the conclusion is inevitable that the scheme will only work successfully if the dollar falls. This in itself is likely to have serious repercussions in the other countries of the world and is liable to evoke powerful agitation in England for a further depreciation of sterling, and perhaps also in Japan for a further reduction of the value of the yen. If by any chance the United States succeeds in getting away with it, this Act will probably be the most important single piece of legislation passed since the end of the War.'

A number of theoretical points in the above argument were immediately challenged by Dr. Moulton and Dr. Lorwin. The assumption that there is a direct connexion between wage costs, selling prices, and the margin of profit was first of all disputed. Such an assumption was obviously ignoring the importance of the capacity at which an industrial establishment is operating and the general importance of overhead costs. Superficially, it might seem that no industry could have increased profits with increased wages; but, in fact, the experience of a number of large firms in the United States shows that this is not true. When, for example, a large concern like the United States Steel Corporation increases its capacity, the reduction in overhead costs thus brought about may be so great as to make possible a definite increase in profits even

when wages have been appreciably raised. The arguments of the British critic seemed to be based on the assumption that all industries in the United States were already operating at full capacity, and that generally all the factors of production were fully employed. In such a case, obviously, if some industries should suddenly become more profitable than others, it would be at the expense of other groups in the economic system. But in fact the evidence of history had been that in every recovery from a trade depression wages had risen simultaneously with profits, and consumption increased along with production of capital goods. The reason was simply that an economic system starting from the bottom of a depression has a large amount of slack to take up, and a good deal of the recovery consists merely in the taking up of the slack. In the N.R.A. programme the really fundamental issue was whether a rise in wages, either because of increased employment or because of higher wage-rates, would contribute towards utilizing a greater capacity of available industrial plant.

PART OF A LARGER PLAN

Another point which, it was felt, foreign observers both in the conference and in the world at large were too often disposed to overlook was that the National Industrial Recovery Act was only one part of the total American recovery plan. To focus all attention and all criticism on the N.R.A. without realizing how closely it was linked up with the profound economic readjustments being carried out under the agricultural programme was to misconceive the total situation very badly. The reasons for this were clear enough. A great deal of the decline in nation-wide purchasing power could be attributed directly to the chronic distress which had affected the American farming population for a long series of years. There was little hope for sound recovery unless steps could be taken to remedy this situation, which was not merely a temporary by-product of the economic crisis but a deep-seated chronic maladjustment in the post-war American economy. Aside from the problem of restoring purchasing power, it was pointed out, American agriculture is faced with problems differing considerably in their nature from the difficulties that confront the industrial world. The problem of surplus stocks, for example, is not only much greater in dimensions, but is subject to the further difficulty arising from the inelastic demand for food-stuffs and particularly cereals. The following remarks made by an American authority on agriculture and food production in the course of the discussion which followed the addresses by Dr. Moulton and Dr. Lorwin indicate the importance of appraising the N.R.A. not only on its own merits but as a part of a much wider programme of rehabilitation.

'The N.R.A. is only one part of the general programme which is being put into effect at Washington. Parallel with it are a whole series of other acts or parts of acts, the most important of which is the Agricultural Adjustment Act. Agriculture has to be treated, at least in the United States, in a different manner from industry, because in this country the farmer either owns his land or rents it, and except in a few sections agricultural labour is a relatively unimportant factor in the situation. Unlike the industrial worker, the farmer does not sell his labour directly for wages but must sell both his labour and his small capital resources. It is therefore impossible to apply the same detailed methods of relief to the agricultural districts as are customary in industrial sections. The A.A.A. itself has a long history. It comes, in part, from the belief which American farmers have come to accept as a result of long and unhappy experience that it is only by persistent agitation that farm relief will ever eventuate. Since about 1920, representatives of the agricultural regions of the United States have laid before Congress plans of one sort or another designed to remedy the agricultural depression. They have felt, rightly or wrongly, that during the whole post-war period of apparent prosperity in industry they continued to labour under the permanent burden of low prices and heavy fixed charges, and that they were certainly not receiving a fair share with industry in the new prosperity. A further factor which has increased the interest of the farming population in reform legislation has been the system of agricultural extension which has in recent years provided a close link between the academic student of agricultural problems and the man on the farm. The Agricultural Adjustment Act is thus only the last in a series of legislative actions including the McNary-Haugen Act and the Farm Allotment Act. In a sense, it may be regarded as the fruition of all these proposals which have come before Congress.

'Since the farmer does not sell his labour but does sell the products of his labour, the Bill aims to help the farmer not by guaranteeing wages and hours as under the N.R.A. codes, but by deliberately raising the price of the commodities he produces. It provides, for instance, that agricultural prices in general shall be raised to the level which will give the farmer approximately the same real income as he received on an average in the period 1909-14. At the same time, it endeavours to protect the consumer by providing that this level shall bear the same relation to the prices of commodities which the consuming public generally buys as the relation between these two sets of prices in the period 1909-14. Another point which distinguishes it from the industrial legislation is that it provides not only for the raising of prices but also for the direct limitation of production. Nearly all the agricultural bills previously introduced into Congress failed primarily because the majority of representatives believed that they were so framed as to stimulate an increase in production and thus to defeat their own ends in the long run.

'The present scheme for the adjustment of production to consumptive demand at the desired price level has to be brought about by a series of direct restrictions on agricultural output. The two principal methods to be adopted are, first, a plan for the voluntary restriction of acreage of important crops

and the restriction of production of animal products, such as hogs. Second, there is a plan to take many million acres of low-grade land out of cultivation and allow it to revert to the public domain. Farmers who comply with these proposals will be compensated by bounties secured by a series of process taxes on agricultural products. Furthermore, agriculture will receive a considerable amount of direct aid from the Government. In both cases, obviously the consumer at large will bear the ultimate financial burden. The net result of the whole programme will, it is hoped, be to bring about a more satisfactory relation between the earning power of the agricultural and industrial sections of the nation, and thus help to restore the economic balance without which a permanent recovery will hardly be possible.'

CHAPTER VIII

CHINA'S RECONSTRUCTION PROGRAMME

IN THE two previous chapters problems of economic control have been reviewed for two countries which to some may seem at extreme ends in a scale of the effectiveness with which a national government can and does control the economic processes of its people: at the one end the island empire of Japan with a domestic exercise of sovereignty traditionally strong, yet further growing under the urgency of new social needs; at the other the great continental republic of the United States, with a tradition of states' rights and an actual diversity of needs and opportunities which permits of no straight-laced guidance of the economic life in accordance with a single formula. Yet, there is an even more extreme position on this scale. The Chinese Government has never had in modern times that unified control over the whole of its territory which to most political theorists would seem a prerequisite of the exercise of sovereign power and which the international statesman must assume as a reality if he bases his policies for an integrated world order on stronger co-operative relations between sovereign states. In China national unity is as yet too fragile and incomplete to permit a successful exercise of many governmental functions in regard to the economic development of the country which in most modern states have become matters of course. It has yet to bridge the many and deep-going differences of outlook that separate its citizens, North and South, and East and West. This lack of homogeneity not only increases the difficulty of every reform effort but is largely the cause of China's miseries. While it has been possible for the ruling classes to lay tribute on distant provinces, it has never been possible for the masses of the Chinese people to enjoy the richness of their total resources or to enter into permanently profitable arrangements of exchange, region with region.

A large proportion of the population, here as in that other vast region which is now the Soviet Union, is permanently living close to starvation. In addition, natural hazards peculiar to this country have made existence precarious for perhaps more Chinese than the whole population of the Japanese islands. China has been impoverished for centuries by a social and political system that has hindered large investments of capital in the improvement of the land or of such basic instruments of higher productivity as roads and other means of communication. For more than a generation the country has been without a strong united government; and for a much longer period the direct influence of the national administration upon the economic affairs and the security

of the citizens has been slight. China has not been able, as has Japan, to throw off the yoke of foreign interference with its internal affairs; and for some of the country's economic processes, foreign participation and control is, in fact, the only guarantee of their continuation. The larger part of the Chinese territory will always, so far as it is possible to foresee, sustain a rural rather than an urban, an agricultural rather than an industrial civilization. With natural resources which, in spite of pressure of population, are yet far from being effectively exploited, China has an alternative to industrialization which Japan does not possess. The need for the development of modern industries in China is quite differently motivated from that in Japan. Japan can only live by exchanging the skill of its people for imported food and raw materials. China needs industries—whether their output be exported or consumed at home—primarily to enlarge the consumption of industrial products by its own people. Indeed, there are some who question whether, apart from industries necessary to the national defence, the building up of a machine civilization really is to the interest of China. Financially, China's position is totally different from that of Japan in that the Government, even before the depression, was so lacking in the confidence of foreign capitalists that it could have secured loans only on terms which seemed to imply relinquishment of sovereignty.

Yet, it was precisely in the financial aspects of a policy of reconstruction for China that the members of the Banff Conference were most interested. Since the discussions of China's reconstruction at Shanghai in 1931, the Chinese National Government had given further evidence of its willingness to co-operate with foreign interests in building up its institutions; but every large-scale plan came up against the Government's inability to raise the capital necessary for carrying it into execution.

In the centre of China's economic problem is the breakdown of that very self-sufficiency which other nations to-day are making—and which some of her own political theorists advocate as—the end of national policy. With an area that embraces a large variety of climates and resources, with a population possessed of many skills and vocational experiences, with a history of economic self-sufficiency that goes back to antiquity, nevertheless, China finds itself brought into external economic relations that cannot be escaped in an era of scientifically developed communications. To satisfy the basic needs of her people, influenced as they are to-day by many outside contacts, has necessitated extensions rather than reductions of China's co-operative relations with foreign peoples and governments. For, these relations alone seem to offer a hope of achieving security of livelihood for its teeming millions.

GOVERNMENT RECONSTRUCTION PLANS

One of the data papers before the conference for the discussion of China's reconstruction¹ recalls the three principal objectives given out by the founder of the Republic, Sun Yat-Sen, when in 1921 he first announced a vast programme for the economic development of the nation: to reduce the foreign debt; to increase the wages of labour; to improve and extend the machinery of production. From the start it was realized that co-operation with nations that possess a surplus of capital—that is, primarily those already deeply involved in China's financial structure—was essential to the achievement of these purposes. The history of this programme has frequently been described. From its first embodiment, in a comprehensive plan formulated by Dr. Sun's son, Sun Fo, envisaging fifty years of national effort and a minimum budget of twenty-five billion dollars, it passed to the adoption by the Third National Congress of Representatives of the Kuomintang, in 1929, of a five-year plan for applying one-half of the national income during that period to material reconstruction. This was followed by the six-year plan adopted by the National People's Convention, in 1931, for a more modest beginning, relating almost exclusively to the improvement and extension of means of communication.

Since the Shanghai Conference of the Institute, two further events of major importance bring the record up to date: the Manchurian conflict, but particularly the undeclared war around Shanghai in the winter of 1932, had involved the National Government in military operations and expenditures which again set back the possibility of carrying out any significant part of the reconstruction programme; negotiations with the League of Nations, on the other hand, had brought appreciably nearer international agreement on a practical start on that project with foreign aid.

The first-named of these events had the practical and psychological effect of again revising in a downward direction the plan worked out in the summer of 1931 with technical assistance from the League. As it finally emerged from the National Economic Council in November 1932, the three-year plan now before China and the world does not pretend to be more than concentration on a few well-selected schemes, some of them already in process of realization. It includes the establishment of a Civil Engineering Station in Nanking, for the training of personnel and for the supervision of studies and surveys; for expert studies of certain contemplated river and harbour improvements; for an automobile road between Wusu, Shanghai, and Nanking—which members

¹ Gideon Chen, *Chinese Government Economic Planning and Reconstruction since 1927*, China Council, 1933; see Document IV, p. 352 *et seq.*

of the conference reported as already being open to traffic ; for study by Chinese educators of the report made by the League of Nations Committee of Inquiry into China's system of education ; for a co-ordination of studies of land reform and agricultural improvement and the formulation of definite policies on the basis of the findings ; for a similar co-ordination of studies of the chief industries ; for a study and plan of financial policies ; for the establishment of a Central Field Health Station, Hospital, and Medical School at Nanking, and the encouragement of training medical officers in other institutions. The last part of the programme also is already well under way, the Central Health Station having been established in June 1931.

The members of the conference were more impressed by these practical and modest efforts than by the larger plans that still engage the attention of the National Economic Council and of various government departments. Reports of actual progress, however small, seemed to have an effect of dissipating pessimism as to China's future which not even the most scientifically constructed programme for industrial developments or for railway and road construction could produce. Individual members, foreigners as well as Chinese, were able to point to provincial and municipal improvements in line with the general principles of the national programme and evidencing a forward-looking, progressive mood among those local administrative bodies and officials on whose energy and efficiency a large part of the national reconstruction effort will depend in the long run.¹

ROAD CONSTRUCTION

Particularly the programme of road construction which had been rather fully examined at the Shanghai Conference again received attention. With the new routes for long-distance motor transportation, more buses and trucks are to be seen. Under the technical guidance of an expert sent by the League of Nations Committee, road construction with local materials is being improved. Crude oil and charcoal are being used for surfacing. Ten of the provinces have built, or are engaged in building, roads of their own, usually in close connexion with the national road system, actual and prospective. This work, though much of it is undertaken for movement of troops against 'communist' bands, nevertheless has already been found advantageous also for civilian uses.² According to the *China Yearbook*, the mileage of roads under construction in 1931

¹ See also *Construction in China*, Memorandum II—7 of the American Council, April 14, 1933, where important actual reconstruction projects are described.

² As part of the same military campaign, there has also been a certain amount of village reconstruction. This, too, is partly strategic in purpose, that is, to ensure the loyalty of villagers whose homes have been destroyed in recent uprisings.

was 5,055, with 31,099 projected, almost as much as the total existing mileage. The total number of motor vehicles registered that year was 25,623 cars, 5,374 buses, 8,395 trucks, and 2,461 motor-cycles.

Writing of the road-building programme as a whole, Y. C. Hoe says:

'There are approximately 40,000 miles of highways existing at the end of 1932, as compared with 18,485 miles in 1928 and 9,188 in 1926. . . . In June, 1932, the National Economic Council created a Committee on Highways and a Highway Department (now called the Bureau of Public Roads). This department has concerned itself with the general planning and supervision of the inter-provincial roads. Its first efforts were centred on a "Three Province Programme" which links up the existing highways in Chekiang, Kiangsu, and Anhwei provinces. Two trunk lines have been completed, the Shanghai-Hangchow Highway, and the Nanking-Wuhu Highway. The completion of the Nanking-Changhing Highway (in Chekiang) will link up 2,416 kilometres of completed roads in the three Central China provinces.

'The second step in the Bureau of Public Roads programme is known as the "Seven Province Project", to be carried out in five periods extending three years over the seven Yangtse provinces of Kiangsu, Chekiang, Anhwei, Kiangsi, Hunan, Hupeh, and Honan. The scheme provides for the construction of 22,000 kilometres of which 2,200 have been completed. A million-dollar road fund has been raised by the National Economic Council, which is to be used as loans to provincial governments for highway construction. As a rule, the Central Government lends about 40 per cent. of the cost of the roads to the Provinces, and the amount is paid out gradually, in accordance with the Road Fund Regulations, to the borrowers as the work on the roads progresses. The Regulations also provide for a definite arrangement for the repayment of the loans, so that the Road Fund will be made a revolving fund for further lending in assisting the construction of more roads.'

¹

RAILROADS

As was explained at the Shanghai Conference, the need for roads in China is so great that a large construction programme is possible which will be immediately remunerative through charges on the traffic. Quite different is the financial problem of railroad construction with the much heavier requirement of capital investment. Although of the existing mileage the Government nominally owns three-quarters (6,238 miles as against 2,075 in concessioned railways),² they are so heavily indebted that neither extension nor improvement, or purchase of much needed new rolling stock, is possible at present to any large extent. Under Sun Fo's plan, new railways were to be built at the rate of two thousand

¹ *The Programme of Technical Co-operation between China and the League of Nations*, China Council, 1933, mimeographed, pp. 23-5.

² *Government Railway Statistics*. Of this total, 1,793 miles of Government railways and 1,759 miles of concessioned railways are in Manchuria.

miles a year for ten years. Under the six-year plan of 1931, a specific programme for building twelve new lines and two extensions was projected at a cost of between 750 and 860 million dollars, about one-third of which was to be covered by the returned Boxer Indemnities of Great Britain, Russia, and Italy.¹ Against this recent plan, the actual programme under way does not look large. It includes the closing of the 175-mile gap of the Canton–Changsha line, an important potential through-route to the North for the completion of which 63 million dollars have been granted as a loan from the British Boxer Indemnity Fund; a southern extension of the Shanghai–Hangchow line—eventually to reach Canton; and extension of the Lunghai railway to the West, with a branch line east to the new harbour of Hsuego. The provinces of Shansi, Kiangsi, and Hunan have plans of their own for the construction of branch lines; and the province of Chekiang has actually built 125 miles of line which are to be developed further with a two-million dollar loan from the British Boxer Indemnity Fund.²

An English conference member with extensive diplomatic and business experience in China gave one of the round tables the following connected statement about the financial side of the Chinese railway situation:

‘China entered into railroad construction, as a phase of modernization, at the end of the nineteenth century—a very late date in comparison with most other countries—though such development had long before been suggested by Chinese statesmen. China had the misfortune to find this development indispensable at a time of great financial and political weakness, so that she was forced to look to the money markets of the world for capital and to the world’s experts for technical skill.

‘Two lines of procedure were followed in Chinese railroad construction:

‘First, concessions were given to foreign companies, granting them the right to build, to own, and to operate railroads over a fixed period of years. The profit or loss was assumed by the company, so that there was no risk involved for the Chinese people who benefited indirectly from the expansion of trade produced. This policy was pursued by companies of various nationalities at the behest of their respective governments—for political purposes, rather than on account of their need for economic expansion. Examples were the French and German concessions, Russian concessions in Manchuria, and the Franco-Belgian concession for the line south from Peking.

‘Second, loan agreements were entered into between foreign companies and the Chinese Government: that is, capital for an undertaking was found by the issue of Government bonds on the London market, the revenue being hypothecated as security for the loan. The railroads were then constructed, maintained, and operated with a certain percentage of foreign personnel.

¹ Gideon Chen, *op. cit.*, pp. 21–22.

² *Construction in China*, Memorandum 11—7, American Council, April 14, 1933.

It is to this system that China owes railroad lines owned by the Government and well built under foreign supervision.

'In 1906, a Ministry of Communications was established which appointed Chinese managing directors for each road. The foreign personnel—not numerous—was under their direction: and the system worked well for many years. The roads were operated cheaply, efficiently, and regularly, and after all interest charges had been met, were able to pay a considerable surplus to the Government which thus was able to build several hundred additional miles without further foreign financial assistance.

'This system continued until 1923. With the beginning of the civil war era, the property of the railroads was seized by various war lords, and their earning capacity was reduced to zero. But as soon as the wars were over, the railroads showed great recuperative capacity. They continued to pay their interest charges out of their reserve funds until these were exhausted: and then the defaults on the foreign loans began. When the Government moved to Nanking, a Minister of Railroads was put in charge: and it was hoped that revision of the administrative arrangements would stop these defaults and clear China's otherwise spotless reputation in the money markets of the world. These hopes were not fulfilled. The control of the Central Government was limited to two or three lines: the others were under the heel of military leaders.

'The recuperative power was such that the earnings were excellent: but these have been short-circuited by local authorities and applied to other uses. This has been going on for years, especially in North China and Manchuria, where the surplus earnings—in reality entirely hypothecated as security for foreign loans—were regarded by the rulers prior to 1931 as their special perquisites and were used by them for the construction of an additional ten- to twenty-million dollars' worth of railroads. These new lines became a special source of annoyance to Japan (which had become heavily interested in the South Manchuria Railway). The railroads from Tientsin to Nanking have been in default since 1925, though they have ample net earnings to contribute towards making up the defaulted debts. The bulk of these earnings is being used for political purposes.

'There is the further difficulty that the bondholders invested their money on the clear understanding that if the railroads failed in their expected earning capacity the Chinese Government would find means of paying from other sources. This engagement has not been carried out, nor has the agreement that as long as the investors' money remained unfunded the enterprise would be operated under adequate foreign supervision. With the growth of nationalism in China, the foreign personnel has not been given an adequate degree of executive authority and is retained only for its technical knowledge.

'There are grave elements of conflict in this situation:

'First, the investors comprise hundreds of individuals in the Western countries who have invested their money for reasonably long terms in a country where the need for railroad development is obvious; and that investment has gone entirely wrong.

'Second, from the point of view of economic recovery, there is still the outstanding need to get on with further railroad development; but until credit can be restored this is impossible.

'Third, for imports to reach the interior of China, an extensive railroad system is required; at present this system affords only one mile of railroad for every hundred thousand of the population. How can the objective be achieved? The mistakes of the past must be removed so that credit can be restored and reconstruction somehow resumed.'

In reply to questions, this member added that the physical condition of the roads is not bad. Chinese staffs have shown great aptitude for railroad work, and maintenance has been carried on fairly well.

A Chinese member, while agreeing with many of this speaker's statements, thought that perhaps it gave too much the impression of a clear-cut conflict between Chinese and foreign interests in the railway enterprises of his country. The financial help from foreign investors for the development of railways in China had been given more often in the hope of political advantage than the statement had brought out. As a matter of fact, the semi-independent war lords, a heritage from the earlier decadent system of government, retained their power in the early phases of the republic largely because of foreign intrigues. The need of China clearly was for international co-operation; but in connexion with the Manchurian railways, for example, every effort to secure such co-operation without humiliating conditions had failed; and now the very difficulty in the way of securing foreign investments, the lack of a strong central government, secure and powerful enough to live up to its international obligations, had been further aggravated by the Japanese occupation of Manchuria and the unrest introduced by the uncertainties of the political situation south of the Great Wall. Civil wars and the necessity of preparing for armed resistance against foreign aggression were the chief reasons for the slow progress made in carrying out the country's plan of reconstruction.

NATIONAL DEFENCE

In the political discussion which followed, one point emerged that may be unfamiliar to the reader: several Chinese members spoke of the increasing respect in China generally, as a result of recent experiences, for the military profession and for the national defence as the most important branch of the Government. According to one of them, an educator, it surprised public opinion that China gained more prestige in foreign countries for the three weeks of successful resistance to Japan at Shanghai than for any other achievement. While traditionally the soldier had occupied one of the lowest social ranks in popular estimation,

young men of the best families were now choosing a military career. In illustration of the new respect for the army, he said that officers were now freely going about in uniform whereas formerly many of them would change to civilian dress whenever they could. More seriously, this change in attitude meant that the Government would have popular support if in the next few years it were to continue to devote the greater part of its revenues to building up the army rather than to more constructive items of its programme.

Another related topic was that of the need of finding an outlet for the disbanded soldiery. Settlement in Manchuria and the development of Chinese railways in that territory had been looked to as suitable means of securing demobilization without the danger of increasing banditry. To-day that possibility was virtually closed, and the financial and social cost of safely disarming the country was, perhaps, an additional reason why so much of the national revenue must be spent on the army or on parts of the reconstruction programme—such as road-building—on which this man-power could be employed.

INDUSTRIALIZATION

The close connexion of the external financial position of China and the possibilities of a far-reaching programme of reconstruction, though perhaps most immediately and directly exemplified in the matter of communications, extends to a large area of the country's economic life. The report on a recent research project undertaken by the International Research Committee of the Institute¹ enabled the conference to comprehend the significance of this connexion for the future of China's reconstruction.

'China is in the midst of a great revolution which touches every aspect of her life. She faces economic changes, and many of the changes in this field require a surplus. The poverty of her people makes it unlikely that she will be able to find any large surplus at home. Her social organization makes it difficult to secure it abroad. The key to China's economic relations may well be found in foreign investment.'²

The study reveals that the total foreign investments of China amount to between U.S. \$3,000 and U.S. \$3,500 millions; it had doubled between the year of the Boxer uprising and the World War, and doubled once more between the beginning of the War and the beginning of the Japanese occupation of Manchuria in September 1931.³ Of the total, about one-fifth represents governmental obligations and the rest business investments. The relative growth of the share of business and

¹ C. F. Remer, *Foreign Investments in China*, New York, 1933, 708 pp.

² *Op. cit.*, p. 10.

³ *Ibid.*, p. 58.

industry in this dependence on foreign capital is well illustrated in the following table:

FOREIGN INVESTMENTS IN CHINA, 1914 AND 1931¹

Distributed by purpose or nature of the business.

	1914		1931	
	<i>Millions of U.S. Dollars</i>	<i>Per cent. Total</i>	<i>Millions of U.S. Dollars</i>	<i>Per cent. Total</i>
General purposes of the Chinese Government	330.3	20.5	427.7	13.2
Transportation	531.1	33.0	846.3	26.1
Communications and public utilities	26.6	1.7	128.7	4.0
Mining	59.1	3.7	128.9	4.0
Manufacturing	110.6	6.9	376.3	11.6
Banking and finance	6.3	0.4	214.7	6.6
Real estate	105.5	6.5	339.2	10.5
Imports and exports	142.6	8.8	483.7	14.9
Miscellaneous (undistri- buted)	298.2	18.5	282.8	8.7
Obligations of foreign muni- cipalities . . . . .	..	..	14.2	0.4
Total	1,610.3	100.0	3,242.5	100.0

Another illustration of the transition from the general, governmental investment of foreign capital to investment in business and industry may be seen, perhaps, in the fact that, of the total, Shanghai absorbed one-seventh in 1902, one-fifth in 1914, and more than one-third in 1931. Shanghai and Manchuria together accounted for about two-fifths of the total foreign investment before the World War and for about three-fifths at the present time.²

To what extent these large foreign investments actually contribute towards the economic reconstruction and development of China was one of the most controversial issues before the members of the Banff Conference. Chinese members of the round tables were inclined to regard much of the foreign investment in the railways and in the industries of their country alike as of doubtful value for its economic recovery. The geographical concentration of much of this investment in Shanghai and Manchuria was seen as offering competition rather than aid to China's

¹ *Ibid.*, p. 70.

² *Ibid.*, pp. 73 and 74.

incipient industrial development. Mention has already been made (see Chapter V, pp. 109-10) of the threat of these enterprises, together with imports of manufactured commodities, to the rural industries. The charge was made that the Shanghai and Manchurian mills in foreign ownership also interfere with the success of Chinese-managed undertakings because of the special advantages they enjoy, particularly extraterritoriality.

Foreign help to develop China's economic resources, it was frequently reiterated, must be on fair terms. Popular attitudes have changed.

'China to-day does not welcome loans of any kind. A self-help temper prevails throughout the country. We have got away from merely complaining about outsiders. There have been fewer student outbreaks of an anti-foreign character of late. China is not even over-anxious for help from the League. There is a determination to solve our problems ourselves, under the direction of Chinese intelligence. With this as the main principle, we would welcome any Western assistance directed towards China's own end. Lionel Curtis once said that the Chinese must be given a new faith in themselves. That is the real essential. Our aims are political self-government, economic self-sufficiency, military self-defence, and the spread of scientific knowledge. The super-privileged will have to control their economic motivation, and the under-privileged shall be better off than heretofore.'

Declarations of this sort were accepted by the round tables as sincere expressions of a national attitude gaining in strength, since on several occasions they were accompanied by rather searching inquiries into the values of Western civilization which until recently the Chinese intelligentsia itself had sponsored somewhat uncritically.

'The solutions of our problems lie in a harmonization of East and West and a removal of mutual misunderstandings. But this cannot be achieved by steady pressure from the West. That will produce only more serious trouble a hundred years from now. The question is, just how far can we modernize ourselves, and where must we cease to follow Western examples? Perhaps it is a mistake to go far in that direction.'

Applied to the actual plans for reconstruction, the leader of the Chinese group expressed this doubt in the form of a warning:

'I do not favour further international loans for reconstruction and consequent entanglements for China. The Chinese Government should limit its activity to the exercise of police power, the maintenance of peace and order and transportation: it should refrain from all expensive, luxurious projects of "reconstruction". Let us try to set our house in order; then, when we have need of credit, I am sure, our loans will be subscribed.'

Another Chinese member said:

'The fundamental cause of unrest is the impact between East and West. Fifty years ago, Japan decided to go Western, and she has succeeded

splendidly. But now she has reached the point where she must decide whether she will go farther in that direction or whether she must work out a new form of society more suited to her particular needs. China has not yet decided whether modernization is the best thing for her. The country is passing through volcanic changes and at present cannot be judged as if conditions were normal.'

To this he added later:

'It has seemed to me that our discussions have given an artificial treatment to the causes of conflict in that everything has been traced to economics. That economic prosperity is not the whole problem is well illustrated by the cases of India and the Philippines where there has been an unquestioned material improvement in the standard of living which has not been accompanied by peace and social content. One fundamental cause of the maladjustment between East and West is that the East has not yet found itself.'

These comments did not imply criticism of the survey of the chief industries of China which is to be undertaken by the National Economic Council as one item of the reconstruction programme worked out by advisors from the League of Nations. In spite of divergent views on the advantages to China of an accelerated industrialization, members of the conference realized that there was need to study ways in which existing industries might be technically improved or reorganized, and particularly also changes in industrial legislation and administrative regulations that would make for efficiency and increase the protection of the workers. There was no criticism either of the arrangement recently entered into by the Government with a German company under which this concern is setting up a central machine shop near Nanking, as a demonstration centre; for it was realized that even with an overwhelmingly rural economy China would need a vastly larger body of men trained in the making, handling, and repair of machinery. For this reason also the news was welcomed which Chinese members brought of the increased number of college graduates who were devoting themselves to mechanical training and technical pursuits.

RURAL RECONSTRUCTION

A Chinese banker felt that some of the main practical problems might be lost sight of in such generalizations as these. The present situation of China must be viewed as a whole, not only from the point of view of industry and foreign trade, but also from that of rural reconstruction. Historically, agriculture and industry have been closely connected. But this partnership has been disrupted by the impact of manufactured products, both domestic and imported. Thus there has been an increase in urban populations, accelerated also by a rural exodus due to natural calamities and unsettled political conditions. The local authorities have

been seriously embarrassed by this movement; and one of the principal aims of policy is to induce people to return to agricultural pursuits. Reconstruction for China did not mean intensive industrialization in the next ten years, but rather a restoration of its rural life.

An English economist added that the problem, in some respects, was the same that England had experienced in the early days of its industrialization, and since then also other countries, including India. So far as the Far East was concerned, the degree of industrialization reached, even in Japan, was grossly exaggerated in Western public opinion.

To what extent a reconstruction of rural life based on the traditional pattern is possible in the modern world was not exhaustively discussed; but several suggestive contributions were made on this subject. That in the country as well as in the towns there must be a minimum of security was agreed by all, not only as an idealistic maxim, but also as a practical immediate necessity for the restoration of peace and order in China. Examples were given from recent history to show that it is this desire for security rather than indoctrination with communist principles that is at the root of agrarian unrest. A 'communist' movement often starts, it was said, in the first instance as a defensive movement against soldiers and bandits, only to develop into an aggressive movement against the extortions of landlords and usurers. New contacts with the outside world have created a general recognition of the need for means of communication: so this naturally became the most popular branch of the Government's reconstruction programme.

There was also a spontaneous growth, it was reported, of co-operative movements out of purely Chinese experience, without either capitalistic or fanatically communist implications.

'This co-operative movement seeks to aid the farmer in improving his live stock, his seed selection, &c., and also to develop the movement of self-defence against corrupt soldiery and banditry, and to organize the districts on a social-democratic basis. Thus in Honan all the soldiers have been driven out, and the province is now peaceful, with road building well under way. The aim of the leaders in this movement is to raise the standard of living and also to encourage a sound view of Chinese culture. They try to help people see how the world is going, to observe the broken edges of Western civilization, and to create a Chinese ideology which shall avoid the errors of the West.

'The encouragement of cottage industries arises from a theory as to the best method for China to pursue her industrialization. These men see that with the development of electrification it is possible to disperse the industrial centres and to avoid overcrowding in cities. Large industrial centres, under this plan, will take care of the manufacture of products which require large-scale production; all other industries will be scattered among the villages.'

One of the data papers describes in detail the progress that has been made in the movement, as yet largely conservative in aim, namely, to prevent the further decline of rural industries, rather than constructive in the sense of creating new economic bases for successful home industries.¹ The principal aims of the revival of these industries are given as (1) the provision of remunerative spare-time employment for a rural population whose work in agriculture is largely seasonal; (2) the fuller utilization of local resources and by-products; (3) provision of a more generous margin of existence, helping to insure against famine, banditry, and communism. Improvement of the standard of living and the development of craftsmanship as desirable in itself are, of course, other aims. Finally, there is the hope, which cannot be realized in the immediate future, that the success of small industries will make possible the introduction of engines and motors which may also at the proper seasons be used in agricultural work and so raise the productivity of the small farmers in competition with large-scale farming.

The author also claims certain non-economic advantages for the revival and development of rural industries which are important for a national reconstruction plan. Understanding of machines, without becoming their servants, will increase the status of the farmers in relation to that of urban workers. Life will be more interesting and people more intelligent, alert, and progressive. With a co-operative system of management, rural industries can become—as they have in Denmark and other countries—schools in which personal responsibility and good citizenship are fostered. It is realized that some of the traditional home industries are destined permanently to disappear. Among these the author includes particularly cotton spinning. In many more, however, the competition of the large mill or factory can be met by organization and improvement of technique. Therefore, the educational aspect of the movement is of primary importance. Training is needed not only to preserve or improve the distinctive character of rural products but also to create the necessary personnel for managing co-operative and credit institutions, for buying and selling, and, in short, for the efficient performance of every service needed to link up the industrial activity of a farming community with the economic system as a whole.

Here, then, is an example of a whole range of reconstruction activities in which foreign participation can of necessity play only a small and subsidiary part. Nevertheless, discussion revealed that it is tied in with other objects of government concern in which foreigners are rendering much appreciated technical services. Technical assistance given to the

¹ H. D. Fong, *Rural Industries in China*, China Council, 1933; see Document III, p. 299 *et seq.*

National Flood Relief Commission came in for special comment from this point of view. As part of the flood-control scheme worked out by Sir John Hope-Simpson, thousands of miles of dykes have been built along the Yangtze. In connexion with it, quarrying and building have been encouraged. The reconstruction of homes and villages has led also to more intimate studies of, and proposals for, the improvement of rural economy. New ideas and new standards of efficient service have been stimulated through the contact of foreign experts with local officials.

The National Economic Council, likewise, has availed itself of foreign expert assistance in the development of its rural reconstruction plans. Mention has already been made of the rehabilitation of villages redeemed from communist control; here the establishment of rural experiment stations has in some cases been the beginning of a new adult-educational set-up, embracing the whole of the community's interests. As a first step in the participation of the League of Nations in the rural reconstruction programme, two European agriculturists, connected with the International Institute of Agriculture in Rome, were sent to China in October 1932 to make a preliminary survey; and later an expert in sericulture was sent out to help officers of the Chinese Government to introduce new methods of increasing the silk content of cocoons. Other co-operative ventures between the League and the National Economic Council will indirectly benefit the rural districts. They include work on communications and transit, public works, education, land reform, the development of hydro-electric power, and of such essentially rural industries as quarrying, manufacture of bricks, and the agricultural and pastoral industries generally. Of largest benefit to the rural population, in the immediate future, are likely to be the activities of that section of the League's co-operative activities in China that has been most developed, public health and medicine.

PUBLIC HEALTH

Since reported upon in the proceedings of the Institute's China Conference,¹ the health programme of the Chinese Government, though seriously interrupted by the military emergency of 1932, nevertheless has reached a new stage of realization. The Quarantine Service, formerly administered by the Chinese Maritime Customs, has been reorganized and extended under the Ministry of Finance. An observer from the League of Nations drew attention to the evidence contained in the monthly reports of the League's Far Eastern Epidemiological Bureau at Singapore of the rapid increase of the effectiveness with which, owing to the international co-operation afforded by this service, the

¹ *Problems of the Pacific*, 1931, pp. 61-2.

incidence of such epidemic diseases as cholera had been reduced. Of special importance for the future of this work was the fact, she maintained, that the League is supporting only a small skeleton staff at the central bureau, while the work in all the other co-operating ports is done by officers of the respective national governments, and by privately supported research institutions and hospitals.

The protection of refugees in the Shanghai section itself has given occasion for training workers in epidemic-preventive measures, while in connexion with the work of the National Flood Relief Commission an extensive campaign was organized against malaria and cholera. The Central Field Health Station at Tangshan, near Nanking, is serving as a demonstration centre for modern methods of sanitation. The services actually at work include bacteriological and chemical laboratories, and departments of epidemiology, sanitary engineering, maternity and child health, and health education. Health work for children has been set up at Nanking and Peiping by the School Health and Physical Education Section. In these two cities, schools for midwives have also been established, the one at Nanking attached to a maternity hospital. Adult health education and sanitary engineering have been promoted with the aid of specialists sent by the League. Lecture courses on health topics are given from the Central Radio Broadcasting Station.

The principal task, however, that of training as rapidly as possible a public health personnel in modern methods of disease prevention, so far has met with the same fundamental difficulty as other parts of the reconstruction programme. It requires expenditures too large to be initiated at the present time on a scale commensurate with the need. So in this field, as in that of road building, the Government also finds itself obliged to concentrate its efforts on a few demonstrations and to leave the major part of the task to local authorities. Medical schools, even institutions for training in specialized health services without provision for full medical training, require clinics and hospitals for their completion. The Central Hospital at Nanking, with 350 beds and costing one million dollars (Mex.), is so far the only institution of this sort which the Central Government has been able to finance. But already the Province of Chekiang is engaged in building a hospital with 400 beds in Hangchow as part of a model public health service. In the absence of adequate training facilities, five Chinese quarantine officers have been sent to Europe and the United States to study public health practices in the principal ports. Thirteen other officers of the National Health Service likewise have been given opportunities to study in Europe and America.

While taking part in many of these activities in their earlier stages,

medical experts, sent at the request of the National Government by the League's technical organization, are engaged mainly to co-operate with their Chinese colleagues in further surveying the needs of a Chinese public health programme in various departments. Special commissions have been set up for such studies in the fields of medical education, vitamins and other aspects of nutrition, physical education, and social medicine.¹

EXTENSION OF CO-OPERATION WITH THE LEAGUE

League co-operation with China in the furtherance of public health was singled out by two of the round tables as illustrating the possibilities of international assistance in China's reconstruction without danger of political control. Though on a relatively small scale, it seemed to the members to show both the potentialities and the limits of effective co-operation—the latter being both psychological and financial. A Chinese member said:

'The earlier visit by Dr. Rajchmann, as a representative of the Health Section of the League, proved so fruitful that other departments of the Chinese Government have urgently requested League co-operation in their activities, too. The latest request of this kind has come from the postal administration. The paper schemes of some of the earlier plans of reconstruction read well but were difficult to execute for lack of a central organization. This is now gradually being built up with the technical aid which the League affords.'

'The Government', explained another Chinese member, 'looks upon further extension of these co-operative activities as important and inevitable. Public opinion is divided; but the largest and most influential section of public opinion supports this attitude. Only a month ago, one of the Chinese papers with large circulation in an editorial article strongly supported this programme of co-operation with the League. It is generally understood that eventually this must extend beyond the rendering of technical services to more extensive international participation in the solution of our problems. Many of those who advocate co-operation with the League feel that political national unity can only be achieved through economic rehabilitation. And as there is very little likelihood of our being able to raise enough money at home, international co-operation is necessary. This does not mean that China can do nothing for herself, but that foreign as well as domestic investment in this work of reconstruction is needed.'

'Not many years ago, the view was often heard in China that international co-operation in the upbuilding of China must be limited to matters of finance. But since we have seen the work of such men as Dr. Norman White, Dr. Rajchmann, Mr. Robert Haas, Sir Arthur Salter, and others, this view has changed;

¹ Y. C. Hoe, *The Programme of Technical Co-operation between China and the League of Nations*, China Council, 1933.

and the elaborate scheme of co-operation, finding embodiment in the National Economic Council—which has not yet been formally organized—as the liaison organ between China and the League, is the result.'

The view of the round tables was that the latest move in the development of this co-operative relationship, the setting up of a special China Committee by the Council of the League, was a step in advance. There was some discussion, however, of the feasibility of Japanese participation under the circumstances. Mr. Yoshizawa, the Japanese delegate at the League Council, had urged that Japanese technical experts, as well as European and American ones, be invited to take part in this task. So far no Japanese experts had been sent on any of the missions.

What are to be the limits of the League's co-operation? Is it to profit from the change of sentiment in China and take up responsibilities towards that country which meet with popular suspicion when exercised by individual foreign powers? Could in some way, under League auspices, that chief obstacle to progress be overcome—China's lack of foreign credit? A British member, long resident in China, summarized the actual financial situation as follows:

'China claims to have balanced her budget this year with a revenue and expenditure of 683 million dollars, approximately 40 million pounds. This statement ignores China's defaults on interest on loans to the extent of upward of 25 million pounds. Some solution must be found to deal with these defaults. Some of them are unavoidable under the stress and strain of the revolution, but others are not. . . . Some enterprises are in default because the earnings are appropriated to other purposes. . . . There is also the problem of Japanese loans of 80 million dollars, secured between 1917 and 1919. Domestically, China has exhausted all possible sources of revenue: from customs, 370 million dollars, from the salt tax, 144 million dollars. Half of her income is required for military expenditures, though these are only a fraction of the cost of two million soldiers under arms. I suggest that perhaps twice as much as ever finds its way to the Government is collected by illegal methods—opium revenues, for example. There must be some settlement of these obligations, some international help in reconstruction, some reversal of the opium policy, so that China can go forward. International assistance, to put it bluntly, must be almost on a charitable basis.'

Consolidation of the national debts at lower interest rates, the discussion revealed, was this 'charitable basis' of financial reconstruction as bond-holders in several countries visualize and demand it. But apparently no international body in existence could perform that task on their behalf, gain the confidence of the Chinese people, and make a settlement of the debt problem part of a larger agreement to finance the early stages of the programme of economic reconstruction. It was

affirmed that the League, though it could collaborate with the National Economic Council of China in perfecting a plan, was not constitutionally empowered to guarantee or even to recommend a loan. Yet it was felt that League initiative in setting up a competent international body to deal with these complex problems was the only hope.

Two preliminary steps were suggested: first, some members felt that, in spite of the immediate financial difficulty, there must be further considerable development of the League's co-operation with China on purely technical matters before confidence in the National Government's ability to put its house in order could be restored abroad; second, a general international convention might be held to arrive at international agreements, paralleling the Kellogg-Briand treaties, to denounce the uses of financial power as a means of international policy, and to lay down conditions that may or may not legitimately be attached to the international issue of bonds. In this way, at least some of the causes of international conflict—such as the right of governments to protect the foreign investments of their citizens with the use of military force—might be eliminated. To the objection that certain European governments certainly were not ready to enter into such an engagement, an American member made the reply that laws, international as well as national, are not made from spontaneous impulse but are the crystallization of custom. If sound policies could now be stated as rules of action, infractions would occur with less frequency; and eventually formal codification would be practicable.

The history of foreign investments in China was compared with that in certain other countries where large investments have been made by foreign concerns which could not expect to have them backed up by the military force of their governments. The insertion of clauses in bond issues, earmarking fairly certain national revenues as guarantees for the payment of interest on them, was looked upon by most of the speakers not as derogatory to the national dignity of the borrower but as a practical way of enabling the development of countries with uncertain economic security. A guarantee exacted from the Bolivian Government by a group of Canadian investors in a large tin-mining enterprise to the effect that the loan is exempted from war taxes was cited as a legitimate condition of this sort, making for peace rather than international conflict. Whether this particular form of guarantee would be practicable in the case of future Chinese industrial or other development loans was not discussed, however.

On the other hand, the statement was made without contradiction that the investor in foreign securities is not normally content with the same return which he would expect from similar enterprises in his own

country and consequently does not object to a correspondingly increased risk. The picture of such security holders storming the offices of their respective governments, demanding military protection for their holding, was said by several members to be rather unrealistic ; it was suggested—though no proof was offered for this contention—that more often governments, to reinforce political aims, overstress the grievances of the bondholders they represent. The general maxim that loans from one country to another for political purposes should be made only with the common consent of the world seemed to commend itself to the round table where it was proposed.

At another round table the prerequisites for any large-scale foreign financing of China's reconstruction programme were seen as follows: first, there has to be a definite programme, worked out in detail, applying the best scientific and technical knowledge to the particular needs of China ; second, there has to be an international body equitably representing the potential investors in small as well as large and powerful countries ; third, foreign participation in reconstruction is intimately bound up with the settlement of China's debt question—at least with the alleviation of the actual grievances of lenders who are asked to wait for their interest while, contrary to its engagements, the Chinese Government uses for other purposes the revenues from the enterprises financed with foreign aid.

According to the principal reference paper on Chinese financial questions before the conference, there is one further prerequisite:

'An important step towards the economic development of China and towards the availability of foreign capital would be taken if the Chinese business community were completely convinced that the Government intends to base its policy on private enterprise and to encourage private enterprise. This involves more than stability of government and freedom from extra-legal exactions on the part of military leaders pressed for funds. It means that a stable government must make known what is to be the field of private enterprise and what the field of government activity. The Government ought perhaps to limit itself, if so broad a field can be called limitation, to planning and selecting, and to the provision of the overhead conditions of industrial and business activity, such as railways, communications, and river conservancy. It means, also, that a stable government must offer to business the security which Western business men find in a constitution or in other accepted limitations upon the acts of officials. I do not pretend to say how this may be done. It must fit the traditions of the Chinese people, but there must be security under generally accepted legal arrangements which are binding both upon the people and the officials of the Government.'¹

¹ C. F. Remer, *op. cit.*, p. 235.

It seemed to most of the members that in the newly appointed China Committee of the League Council, strictly limited as it is to non-political co-operation with the National Economic Council, there lies hope for progress in all these directions. Whether the dormant China Consortium could become active or some new body have to be constructed to collaborate in the money markets of the world, the common confidence of the Chinese Government and of the Western nations in the integrity of the China Committee of the League and in the value of the practical plans which it is helping to perfect was seen as a distinct asset which in some way or other should be utilized in future negotiations. It was felt that the responsibility of the committee to the League Council, to which it has to report three times a year, as well as its composition—of representatives of the smaller member states in the main—promises that future discussions of international co-operation with China will take place in a democratic forum rather than behind the screen of diplomacy; and that also was hailed as an asset.

Only a few members of the round tables doubted whether any economic reconstruction on such a basis as this would permanently commend itself to the Chinese people. The Soviet Union is a near neighbour; and the often prophesied failure of its Socialist system has not yet materialized. Another neighbour is Japan which, as we have seen in a previous chapter, is rapidly tending towards a form of state capitalism, far removed from the reliance on private enterprise which Professor Remer, in the passage cited above, stipulates as a cornerstone of economic recuperation for China. French Indo-China and the Dutch East Indies to the south, though both adhere staunchly to a capitalist form of colonial economic exploitation, have gone beyond those functions of general administration and overhead planning to which some would limit the Chinese Government. All around the Pacific, not excluding the North American Continent, private enterprise is passing by degrees under new forms of state supervision and interference which fifty years ago, and even more recently, were denounced as threatening the main spring of economic activity.

THE NEED FOR SECURITY

The cry of the world, as voiced by both Oriental and Western speakers, is not for more wealth but for greater security.

'If we assume that standards of living must be increased indefinitely', said a Chinese speaker, 'conflicts are inevitable. We must realize that there are other demands. . . . The real economic problem of China is that of stabilization. Industrialization will be confined to half a dozen large centres; the real

economic solution lies in the country districts. The tendency to-day among thinking people is towards a revival of the traditional Chinese attitude towards material things, the theory that there are higher aims than profit making. There is a movement on foot to revive the self-confidence of the villagers who have so long been suppressed by corrupt officials and the contempt of city dwellers.'

Other speakers re-phrased this statement by agreeing that what the common people—that is, in China, the great majority of rural inhabitants—desire of economic reconstruction is not, primarily, material gain, though many of them are close to starvation at the best of times, but a moderate degree of security in the enjoyment of the fruits of their labour. That also, according to members prominent in Western business, is to-day the attitude of the private investor. There is, according to their testimony, less recklessness in investment than there was at one time among those who put their savings into foreign securities, even though there are outstanding recent examples in which their trust has been abused through the spread of misinformation and practices verging upon gambling with other people's money. Stability in exchange rates and reasonable assurance that projects for which loans are made will be self-liquidating were mentioned among the conditions which lenders increasingly insist upon; and both conditions, it was held, require some form of government control or participation.

Security also is the motive that lies behind China's suspicions of the Banking Consortium and the conditions which it has laid down for rendering its services in the issue of Chinese loans. These suspicions have outgrown a justifiable fear lest the acceptance of foreign loans might introduce a new era of political threats by foreign Powers: they now often express, as the chairman of one round table summarized the discussion, nothing more than the resentment of people whose ardent nationalism seeks to avoid any action that might be interpreted in ways derogatory to the national pride.

Adherents of different schools of economic thought seemed to agree that in this universal desire for security lies the key for international co-operation in the economic reconstruction of China. Foreign loans are essential to that country's stabilization; to attract capital, inducements must be given that are in the nature of government guarantees and yet entirely without significance for the political relations between China and the lending countries. The money must be used productively, but that does not mean necessarily for the stimulation and enlargement of international trade. The people in the borrowing country must be protected at home against the promotion of foreign loans by political leaders for their own financial or political advantage, those in the lending

country against sudden changes of policy that endanger the guaranteed safety of their investment. Loans for political purposes, as for example to stabilize a government in times of civil war, should be made only with the consent of the world and with full recognition, in the conditions laid down, of their special character.

CHAPTER IX

OTTAWA: A CO-OPERATIVE ATTEMPT AT RECOVERY

THE AGREEMENTS of the Imperial Economic Conference which met at Ottawa from July 21 to August 19, 1932, were necessarily included in the survey of economic conflict and control in the Pacific by the Banff round tables. By some of the members they were regarded as a special form of national economic recovery, comparable with the United States programme or with the Chinese plans for reconstruction. Like these other experiments, they are open to several interpretations differing widely according to the observer's point of view. There were some who saw in them the beginnings of an inter-imperial economic union which, though it is never likely to become a self-contained unit, may nevertheless approximate much more closely to an economic bloc than was thought possible before Great Britain definitely became a protectionist country. Others regarded them as simply another barrier to divert and probably reduce currents of international trade already shrunk to almost a third of their 1929 value—a barrier built mainly for the profit or protection of special group interests in the separate countries of the British Commonwealth, even though ornamented with good intentions for a strengthening of economic ties and for an improvement of general welfare throughout the Empire. A third group, less inclined to extremes in economic or political doctrine, treated them frankly as an expedient with little foundation in long-term policy—an imperfect attempt to escape, however little, from the insecurity of a world in economic chaos, into the comparative stability of five-year agreements among a group of nations which for special and perhaps sentimental reasons still possess something of the will to co-operate.

The agreements were considered important for yet another reason. In certain of their provisions, such for example as the meat import quota scheme arranged between the United Kingdom and the two Dominions, Australia and New Zealand, were seen examples of conscious economic control in international trade, more interesting than many of the unilateral restrictive schemes in that they are the products of careful negotiations among politically independent nations. To those who looked with disfavour on all governmental interference with the free flow of international trade, even the artificial stability of such a scheme seemed a poor reward. But others urged with some justification that in a protectionist world where quotas and other trade barriers are universal, it is better that such restrictions should at least be made co-operatively and be based on *some* elements of reason. Moreover, in the Tariff Boards

set up under these agreements, there is an example of international machinery, which may be capable of development on a wider scale. Admittedly the basis on which some of these boards are to be conducted is of doubtful validity and liable to serious abuse in the hands of powerful interests clamouring for protection. Nevertheless, the principle of international consultation is an important one to have embodied in treaties on commercial relations.

There was a third reason why Ottawa had special significance for an international body like the Institute, as distinct from a purely British group of countries. It was felt to be significant not so much because of its precise economic effects, for these are difficult to measure and are likely in any case to be small, but because of what seem in the eyes of other countries to be its long-term implications. At a time when the merits of *Autarkie* were being loudly announced in many parts of the world, it was natural that nations outside the Empire should regard the agreements as pregnant with possibilities that seemed very remote to most people in the Empire. To these outside nations, Ottawa symbolized the end of an era in world commercial history and the capitulation of the world's staunchest supporter of Free Trade, the colonial Open Door, and the unrestricted Most-Favoured-Nation Clause. There remained now only the Netherlands—the one important trading and colonial nation where these doctrines were maintained practically intact.

Such an interpretation, it is true, assumes a great deal and at many points will not bear detailed historical criticism. As the discussions of the Banff Conference showed, there had been important exceptions to the doctrines mentioned above, long before the Ottawa Conference. Leaving aside the fact that Great Britain had adopted a protectionist policy many months before Ottawa, it was recalled that 'Free Trade' in that country had already been considerably impaired for a long time by the high 'safeguarding' tariffs on a limited number of articles. Furthermore, the Most-Favoured-Nation Clause in British commercial treaties had always been subject to an important exception, preventing its application to inter-imperial trade agreements—an exception which, as foreign nations saw clearly, was logically inconsistent with the sovereign rights and fiscal autonomy which each of the Dominions claimed for itself. Similarly, there was nothing new, at least for the Dominions, in the idea of preferential treatment for imports from other British countries. It was the general rule, broken only on such occasions of inter-imperial discord as the 1931 trade dispute between Canada and New Zealand, when the latter country applied the general schedule of duties, instead of the preferential rates, on Canadian automobiles, in retaliation for Canadian duties on New Zealand butter. It is true that the mother

country had been unable to give any equivalent concessions in return, at least in the form of preferential duties, as long as she maintained a substantially Free Trade policy. Nevertheless, there had been important indirect concessions—such as the provisions for acceptance in Great Britain of Dominion Government securities as ‘Trustee Stocks’ which conferred advantages probably as valuable as substantial tariff preferences.

These facts went far to offset the view expressed by some members that Ottawa marked an entirely new era in British commercial policy. But they do not completely offset it, as is evident by the interest which the agreements evoked outside the Empire. For the members of the Banff Conference, these foreign reactions, whether rightly conceived or not, were just as important as the objective studies of the agreements. There may be little in the Ottawa Agreements that would give any warrant for Japanese military actions in Manchuria, but the fact that Japanese military leaders could successfully use them as a talking point in defending their policies before Japanese public opinion was something that seemed to demand serious attention. In the same way, it was agreed that the inclusion of some of the British Crown Colonies within the scope of the imperial preferences constitutes an altogether negligible departure from the long-standing tradition of the Open Door in these areas. But as members from other countries saw it, a principle had been abandoned, and in consequence the way lay open for further extensions of the practices adopted at Ottawa until the British colonial empire might be closed like the French or the Japanese or the American.

For purposes of convenience, the Ottawa Agreements in this volume are considered along with various other efforts at national economic recovery in the Pacific countries. But it would be wrong to infer from this that the conference saw any close parallel between the arrangements concluded at Ottawa and, say, the elaborate programme of recovery in the United States. Such an inference would overlook the fact that independently the Pacific Dominions have each worked out their own plans for dealing with the depression, either by machinery for mitigating human distress or by more ambitious schemes for business revival.

Although the discussions at Banff touched only rarely on these separate efforts at recovery, they should not be overlooked; for, in Australia and New Zealand, particularly, policies directed at economic revival had been put into effect long before the Ottawa Conference. The Australian effort was particularly noteworthy, for that country was one of the first to feel the impact of the economic depression with the fall in wool prices, and was one of the first (because of the unusually heavy burden of its foreign indebtedness) to be faced with the necessity of most

drastic readjustments in its whole economy. The methods taken to redress the situation were fairly well known and needed no lengthy description. They involved not only the wage reductions which characterized most other countries, but the less familiar device of compulsory interest reductions on internal domestic obligations. In order to adjust a difficult situation in the country's international balance of payments, imports were restricted by a variety of measures, including a range of prohibitive tariff rates as well as a depreciation of currency varying between 20 and 25 per cent. below the pound sterling, or about 35 to 40 per cent. below gold parity.

The Australian recovery programme was also interesting to the conference members for the importance of the role which economic experts played in it, and for the remarkable extent to which their advice was followed in the face of opposing local political considerations. The Australian 'Brain Trust' indeed had completed its work, and had seen its recommendations put into effect with success, long before its counterpart at Washington came into the public eye. The soundness of the Australian programme seemed to have been confirmed by the subsequent course of events in that country. In the chart of business barometers prepared by the League of Nations for the principal countries of the world,¹ definite signs of recovery appeared in Australia at least a year earlier than elsewhere, and the rate of improvement has been steadily maintained without a setback. With this improvement, the Australian Government was able to relax some of the severer restrictions applied to its import trade, and by successful conversion operations in London was also able to reduce the burden of its interest payments on foreign debts.

In many respects the New Zealand Government was seen to have followed a similar programme. In this country, however, the full effects of the depression had not made themselves felt until much later than in Australia, owing in large part to the fact that export prices for meat and dairy products were better maintained in the earlier part of the crisis than wool prices, which mainly affected the latter country. This and the fact that New Zealand's public finances were not in such critical shape as her neighbour's served to put off the day of readjustment until well into 1932. Wage and rent reductions were then put into effect. After considerable discussion between the farming and the financial and mercantile interests, the farmers forced the Government to follow the Australian example in depreciating the currency by a further 15 per cent. till it sank to the level of the Australian pound. In this experiment, however, the country lost most of its expected benefits; for Den-

¹ See *World Economic Survey, 1932-3*, diagram facing p. 16.

mark, its chief competitor in the English market, immediately lowered the value of its currency to an equivalent level. New Zealand was thus left bereft of its anticipated gain in competitive power, and burdened with heavier foreign interest payments and increased prices on its imported goods.

All these plans, however, were concerned with domestic conditions. There was little evidence to suggest that any idea of economic recovery throughout the Empire by co-operative action had played a part in the separate policies of Canada, or Australia, or New Zealand. Doubt was expressed whether even in the Ottawa meetings any such ideas of imperial welfare and recovery had exerted any appreciable effect on the bargaining. It was, in fact, precisely in those plans which called for a co-ordinated policy by all the governments of the Empire, such as currency management and customs administration, that the Conference had failed to accomplish anything worth while. The Imperial Economic Conference was neither a consciously planned attempt to bring about a general economic revival throughout the Empire nor a shrewdly designed plan to create an exclusive British economic bloc. It was held because the earlier 1930 Conference had resolved that it should be held. The fact which gave substance to its whole proceedings, and made possible the only important decisions taken, was that Great Britain had become definitely protectionist, and had set a time limit (November 15, 1932) after which Dominion products would be subject to the general tariff rates unless an agreement was achieved at the conference. The mother country thus had what she had not possessed in previous conferences—something to bargain with, something that could be used either as a bait or as a threat. The device of announcing a time limit may or may not have been a bluff in the Imperial poker game. In any case it worked. An unkindly free-trader could thus comment that the Dominions had come to Ottawa, not moved by sentiments of Imperial economic unity, but spurred on by the same fear that had brought other European nations hurrying to negotiate special agreements with Great Britain after the conference—in short by the desire to make the best of a bad situation, namely a protectionist era in the mother country.

REASONABLE SAFETY IN A WORLD OF ECONOMIC UNCERTAINTIES

The round-table discussions of the Ottawa Agreements were marked by the fact that none of the professional economic experts and only a few of the other members in the British groups were unqualified supporters of them. Such a situation is not uncommon in Institute discussions. American members in stating the case for the National

Recovery programme in their own country, or in explaining the American tariff or immigration policy, have often been placed in a similar position. So also, Japanese members have on occasion had to expound national points of view regarding Manchuria, with which they personally had little sympathy.

On the part of all the speakers who defended the agreements, there was a tendency to deny the usual charge that Ottawa was the beginning of a more exclusive trade policy within the Empire. They pointed to the statements made by Mr. Baldwin at the opening of the conference, in which he urged that a country in Great Britain's economic position could not possibly sacrifice its world markets even for substantial promises of increased trade within the Empire, as evidence of the fact that there was no real threat of an economic bloc arising out of the agreements. For Canada also, members agreed that it would be exceedingly difficult, with her need for world markets, on the one hand, and her close economic ties with her southern neighbours, on the other, to choose between joining an imperial bloc or a North American one.

One member suggested that much of the suspicion in the minds of other nations as to the intention of the agreements came from the fact that an international gathering had actually achieved some definite agreements on trade instead of the usual empty resolutions. 'I may seem cynical', he said, 'but it seems to me that the mere fact of agreement *per se* seems a menace to the outsider. But in fact the amount of agreement reached at Ottawa has been much over-estimated. For example, any ideas of Empire Free Trade are as dead as mutton, and Ottawa gave no serious thought at all to an Empire currency.' His views were echoed by members in other round tables, some of whom had attended the Ottawa negotiations. With the memory of the violent disagreements that characterized much of the proceedings there still fresh in their minds, they were at some pains to disabuse non-British members of any idea that the agreements represented any real consensus of Empire opinion. In the course of the discussions there were frequent allusions to these inter-imperial discords, and a Canadian quoted the opinion that the conference had demonstrated the strength of the Empire; and that, having survived Ottawa, the Empire could withstand anything except another imperial conference. The same point was made in a less facetious vein by a Dominion member who had participated in the negotiations. In his opinion, the chief value of the conference from the British domestic viewpoint, and the chief advantage of holding it outside Great Britain, was that it gave the British Government an opportunity to speak frankly to the Dominions about the damage their separate tariffs had done to British industries, and to

remind them of the advantages their goods had so long enjoyed in the (till recently) free British market.

The general line of argument used in support of the agreements was familiar enough to all non-British members. American members remarked on its close family resemblance to the body of argument used in their country by the protagonists of economic self-sufficiency. Japanese noted points that have been familiar topics of debate in the pros and cons of Japan's economic policy in Manchuria. The argument was simply that, in a world where world trade is stagnating and where no international agreement has succeeded in staying the rising barriers of tariffs and restrictions, the next best policy is an attempt to keep the life blood of trade flowing within a certain group of nations where some agreement is possible. Even though this may mean some restriction or diversion of trade outside the group, the internal stability caused by the agreements will so bring about economic recovery that the ensuing advantages will soon be communicated to outside nations. Some advocates of this policy went farther and urged that, when the results of such regional agreements are seen, there will be a tendency for other nations to offer concessions in the shape of reduced tariffs, in order to be admitted into the area of the agreement.

These arguments were developed at some length by members from Great Britain, who were perhaps more conscious of the great changes which had taken place in that country's long-standing commercial policy. Three generations of free-trade policy led to an impasse, one member argued, and all attempts at world agreement to lower trade barriers had signally failed. (The subsequent collapse of the Monetary and Economic Conference at London had only strengthened this conviction.) Great Britain had, therefore, chosen the only other course open to her—a series of agreements within the Empire designed to give for a period of five years at least some degree of stability on which business contracts might be based with reasonable safety.

Allied to these views were certain non-economic considerations advanced by other members. For the sake of security and improved political relations within the Empire, the agreements at Ottawa would be justified, it was urged, even at the cost of some diversion of world trade. But unfortunately no concrete evidence was adduced to prove that increased political security had been assured. While in theory every one agreed that there are times when a chance profit should properly be sacrificed for an assurance of security, it is possible, as an American member observed, that any such movements towards exclusive regional agreements or blocs will bring about such political and economic strains in the countries left outside as to work seriously against world security.

OTTAWA AND THE OUTSIDE WORLD

Those speakers who supported the agreements had in their minds an apparently sincere conviction that Ottawa represented a definite step towards world economic improvement. For Great Britain, at any rate, they believed that it was only the first step towards a programme of tariff agreements with other, non-British countries—a programme designed to promote, by a series of mutual concessions, assurances of order and stability in foreign trade over a period of years. In support of this contention they referred to the number of new commercial agreements which the British Government had recently concluded with Argentina and several Scandinavian countries, and spoke of a dozen or more other governments who were hastening to follow suit. Such arguments brought forth prompt rejoinders from critically minded members of the round tables. They were extremely sceptical of the alleged benefits conferred by the various treaties, and still more critical of the theory that Ottawa would mark the beginning of a series of tariff reductions through agreements with other countries. Although, as they admitted, many people in Great Britain held this view, there was a strong element in the present National Government which believed in tariff protection as a basic principle of domestic security, and was, indeed, committed to a policy of fairly high tariffs. This group would remain as a serious obstacle to any attempt to extend some of the preferences embodied in the Ottawa Agreements to outside countries, especially now that certain economic groups in the country had tasted the benefits of protection and had begun to acquire a vested interest in retaining it. This applied even to countries so intimately tied to the British network of foreign trade as Denmark and Argentina. A still greater obstacle lay in the attitude of the Dominions, many of whose products competed with England's imports from South America and Scandinavia. Any attempt, for example, to extend the preferences to Argentine wheat would certainly be resented in Canada, a Canadian member pointed out. Australia and New Zealand would object to similar treatment of Argentine meat.

The critics advanced another argument. It was hard, they said, to believe that the British intended to use this policy of extending the scope of the agreements as anything more than a mere talking point. By committing themselves as they did to the kind of treaties signed at Ottawa, they had effectively tied the hands of the Government and blocked any possibility of real tariff reductions for imports from other nations. Members recalled the outcry which had been made in some quarters in England over the way in which the Dominions had been allowed to interfere with what had usually been regarded as Parliament's

prerogative in legislating on tariffs. As regards the supposed international benefits of Ottawa, there was plenty of evidence to suggest that they had in fact acted as a further deterrent to world trade. The existence of these commitments had certainly not made either Great Britain or the Dominions any more disposed to take a vigorous stand in favour of removing trade barriers during the subsequent meetings of the World Conference in London. More important still was the British Government's step in denouncing its trade agreement with the Soviet Union (October 17, 1932), as a result of the clause which certain Canadian interests, notably lumber, had asked to be included in the agreement.¹

Opinions at the round tables were divided on precisely how far and in what specific ways the agreements had diverted or reduced existing currents of trade. There had been too little time for any marked changes to appear in the official trade statistics. Figures were quoted to show that, for the year ending March 1933, Canada's exports to the United Kingdom had showed an increase of some 6 per cent., whereas her total exports and her exports to the United States had declined by over 20 per cent. However, the statistics of Canadian imports from the United Kingdom did not reflect this improvement, though it was pointed out that the *proportion* of Canada's total imports which came from the United Kingdom had appreciably increased. But even with complete statistics, it was thought almost impossible to trace out the effects of Ottawa and to separate them from the effects of other world tendencies. In the agreements themselves there are conflicting tendencies, and it is difficult to state how far removals of restrictions within the Empire have been balanced or outweighed by increased tariffs or extra-imperial trade. It appeared to be the fear of a good many round-table members, especially non-British, that the net effects would probably be in the direction of increased rather than lowered tariffs.

There were interesting comments from some of these non-British members. Americans felt that, in view of their own tariff policy, they had little excuse for complaint at the diversion of some Canadian trade from the United States to Great Britain. Several Japanese members considered that in their country the chief effects had come from the change in general policy implicit in the Ottawa negotiations rather than from actual diversions of trade. In Japanese public opinion, England's long maintenance of a Free Trade and Open Door commercial policy had stood as a symbol of world community and had helped to spread the feeling for internationalism. Ottawa had dealt a blow to Japanese liberalism, already weakened in a period of intense nationalism: coming,

¹ See Document VII, O. L. Lawrence and G. H. Palmer, 'The Economic Consequences of the Ottawa Agreements in the Pacific Dominions', p. 405 *et seq.*

as it did, at a time when Japan was involved in bouts of intense trade competition with English merchants and in the early stages of a serious economic dispute with India, it had served as another argument to those Japanese groups that advocate more national self-sufficiency and a policy of expansion in north-eastern Asia.¹ This feeling was the more justified in Japan because of those parts of the Ottawa agreements which brought the Crown Colonies within the scope of the Empire preferences. Certain of these colonies, such as East Africa and Malaya, were important potential fields of expansion for low-priced Japanese goods.

To this statement of Japanese opinion several British speakers felt constrained to raise objections. Even supposing that Ottawa foreshadowed an Empire bloc as certainly as these Japanese seemed to think, Japan's own commercial policy of relatively high domestic protection, together with a 'Closed Door' in her colonial trade, was by no means liberal enough to justify serious criticism of British action at Ottawa. And in fact, as Chinese members were quick to notice, there appeared to be a great deal of loose thinking in Japanese circles as to the nature of an economic bloc. To these Chinese it seemed a gross error to speak as if there were any analogy between Ottawa's trifling efforts at increased imperial self-sufficiency and Japan's forcible attempts to assimilate Manchuria into her own economic frontiers.

'With any large development of self-contained economic blocs', said a British member, 'the position of a country like Japan would be intolerable; and war would be inevitable, unless she were given the same chance to carve out her own territory. But economic blocs are not a reality, however attractive in theory, and it is simply not true that, as a result of Ottawa, the Empire is a closed unit. The general desire of the Dominions (which cannot be checked in Canada and Australia because improvements in agriculture will increasingly drive rural workers to the cities) is to become industrialized. Therefore they want to protect their domestic markets against industrial countries like Great Britain and the United States, as well as Japan. Except for the slight Empire preferences, England and Japan are essentially in the same position in this respect.

'The exports of the Dominions are primarily raw materials, and in these commodities the Ottawa agreements have not affected Japan. The Dominions are eager to supply Japan with all wheat, wool, and dairy produce she will take. This desire has been clearly shown in the growing trade between Australia and Japan in wheat and wool.

¹ New York newspapers about the end of October 1933 carried reports that Japanese traders were making greatly increased purchases of wool from South America and transferring part of their former Australian business to this part of the world as a gesture of retaliation against recent tariff tendencies in the British Empire.

'There is really no novel principle concerning imports in the agreements, but simply a regularization of earlier practices. Great Britain cannot dictate a tariff policy to the Dominions; and her power of interference in the other possessions, especially India, is strictly limited. The Indian restrictions which affect Japan are due to India's desire for industrialization—a desire which runs counter to British interests as well as Japanese. Attempts to make the British Government force on India tariffs favouring British manufacturers have failed in the past and have no chance of success in the future.

'If Japan has any legitimate grievance, it has to do with possessions other than the Dominions and India, namely the Crown Colonies. The present British tendency, since Ottawa, is to impose protective tariffs in these areas and to include them in the scope of the imperial preferences. Even here, however, the Japanese have a chance to bargain, for Great Britain has announced its intention of negotiating a new commercial treaty with Japan. As a matter of fact, British interests may not gain anything in the long run by trying to close these colonial markets, as in Africa. Japan may perhaps retaliate against such a policy by intensifying her competition against British trade in neutral markets, and leaving the trade of her rivals limited to the colonies. The risk of such a forcible redistribution of markets will probably act as a curb on too extravagant a tariff policy in Great Britain.'

He went on to argue that Japan to-day stands in the position of Great Britain at the end of the eighteenth century, and the position between the two is not unlike the position of Britain *vis-à-vis* France in that era. England's position has now changed, and her efforts are directed to raising protective barriers to keep competitors out of her already curtailed markets. But Japan is now in an expanding phase. She has more to gain from a liberal trade policy and from Free Trade generally than probably any other country in the world. 'If I were a Japanese leader', he concluded, 'I should certainly do everything in my power to start a crusade for free trade.'

Comment of another kind came from a Netherlands member. Speaking as a national of the only important country where some semblance of liberal commercial policy still remains, he challenged the contention of some British members that agreements of the Ottawa type were the only practicable form of international trade pacts with the world in its present frame of mind. On the contrary, he believed it was quite possible to work out rational producers' agreements on an international scale without necessarily raising tariffs and without arousing the political jealousies or apprehensions of Ottawa. Indeed, such agreements can be linked to a policy of lowering tariffs—as was seen in the Ouchy Treaty signed on February 20, 1933, between the Netherlands and the Belgium-Luxemburg Economic Union, providing for a series of progressive tariff reductions over a number of years, and, more important

and unusual, inviting any other nation that desired to do so to join the pact on similar terms.

This was an example of a serious attempt at regional tariff reductions, and it therefore came as something of a blow to the Ouchy signatories to learn that the British Government raised objections to the draft treaty on the ground that it violated the Most-Favoured-Nation Clause, though the Ottawa Agreements in reality involved a much more serious infraction of that clause, if the autonomy of the British Dominions was to be understood literally. It was not easy for such exporting nations as Holland and the Scandinavian countries to believe in the sincerity of Britain's desire to promote international trade by regional agreements when it opposed the genuine attempts of those nations to liberate and increase trade by the Ouchy and Oslo Agreements, immediately after it had entered into agreements at Ottawa whose effect would be to restrict trade more than to promote it.

MACHINERY FOR INTER-IMPERIAL CONSULTATION

Whatever grievance the round-table members held as to the net effects of Ottawa on world commerce, there was general agreement that the provisions for the establishment of tariff boards represented an improvement over the evils of unilateral state action in changing tariffs. It was believed that in a scheme of this sort there might even be an example which could be followed generally in commercial negotiations between other countries not bound by a common political allegiance.

In the Ottawa Treaties, the three Pacific Dominions agreed to abide by the principle that tariff protection would only be given to industries 'reasonably assured of sound opportunities for success', and that when protection was given it should be such as to allow United Kingdom producers 'full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production'. Special consideration was, however, to be reserved for infant industries. Each Dominion agreed to set up an impartial tribunal with full rights of audience for British producers, and to make no increase in tariffs except with the tribunal's approval.

It was said in the round tables that there was a genuine desire to make the tariff boards really effective and to shield them from the influence of special interests. The tariff commissioners in Canada had a ten-year appointment and were not affected by party changes. On the other hand, it was agreed that the principles (quoted above) on which the boards were founded were so broad and capable of such differing interpretations in practice that they might exert no real restraint on the pace of protectionism. The 'cost of efficient production' principle was

notoriously unsound, both in theory and in practice. An American member who had had practical experience of investigating foreign production costs for the United States Tariff Commission testified to the practical impossibility of securing proper information and to the difficulty of having reliable expert recommendations acted upon.

The boards have not been established long enough to permit an adequate appraisal of their effectiveness; but a British member asserted that a good deal of resentment had been aroused in England by their working. In the case of the Canadian board, the information asked for in its questionnaires addressed to English manufacturers could not be given without revealing trade secrets. The impression had got abroad that the real purpose of the questionnaires was to discourage manufacturers from appealing to the boards. Moreover, with the Australian and New Zealand boards it would take so much time and money to send out representatives from England that the rights of audience before those bodies might be of doubtful value.

'Our tariff board', said a Canadian member, 'is chiefly concerned with reviewing the decisions of the Department of Revenue. In this connexion its jurisdiction has already been challenged, and the matter is not yet decided. It is known to have aroused suspicion in Great Britain. So far, only the representatives of the woollen industry have appeared before the board. A lengthy memorandum was submitted on the calculation of costs in the industry; and, in spite of the opposition of the Canadian woollen interests, the British proposals were in general accepted. However, in Canada the real burden or the real effectiveness of a tariff may depend more on the administrative practices and the interpretation of the tariff law by the Customs officials than on the actual rates of duties. Until we see whether the Board can control administrative action as well as rates, we cannot be sure of its effectiveness.'

Administrative rules and procedures in the interpretation of tariffs have been responsible for a great many so-called 'nuisance' regulations in British trade with the Dominions. Even to do no more than abolish these regulations would have been a valuable accomplishment, in the opinion of many English exporters. It was not possible to achieve all that was desired, but New Zealand had agreed to abolish its surtax on British imports, and Canada and Australia had agreed to do so as soon as finances should permit. The Canadian agreement also promises to administer the tariff in such a way as to avoid uncertainty as to the amounts of duty payable, and to reduce delay and friction. Similarly, it was possible to regularize procedure on the valuation of British currency for Canadian customs purposes; and, in fact, the present agreement, as a Canadian writer shows, constitutes a definite discrimination

against non-British imports into Canada and puts Japanese exports to Canada at a severe disadvantage.¹

Besides removing some of these minor hindrances to trade, Ottawa, as several members pointed out, had made a beginning in planned foreign trade. In Canada, for example, the conference was preceded by a series of conversations between technical experts in various industries, notably steel and textiles, with a view to working out plans for dovetailing the output of Canadian with that of English producers in some scheme of allocation of markets. The results had not been all that was hoped for, but a measure of success had been attained in the case of steel, where it was agreed that small steel plates should be manufactured in Canada while Great Britain should supply the larger sizes. In this kind of arrangement there are obvious possibilities for eliminating unnecessary competition and friction in trade. Against the limited success in the steel negotiations must, however, be set off the almost complete failure of English and Canadian textile interests to reach an agreement. Attempts at planning are also embodied in the Ottawa agreements with Australia and New Zealand. Here the 'plan' is admittedly designed for restriction of meat imports from these Dominions, as a measure of protection for English meat producers. There were many observers who believed that protectionism of this sort is not redeemed of its evils simply because it is disguised as a quota scheme mutually agreed upon by the three countries concerned. Others, however, believed that in schemes of this kind, for a rational allocation of production and of markets a device is to be seen that may ultimately be expanded into large international plans for the deliberate management of foreign trade.

¹ See Document VI, K. W. Taylor, 'The Effects of the Imperial Economic Conference on the Trade of Member Countries of the Institute of Pacific Relations', p. 396 *et seq.*

CHAPTER X

ECONOMIC CONFLICT AND PUBLIC OPINION

THE PROGRAMME provided for the discussion of three distinct interrelated subjects that connect problems of economic conflict with problems of education. The first relates to the instruments of influencing public opinion, the second to educational processes as means of meeting new economic needs, the third to both as operating in an international setting.¹

The four sessions of the two round tables devoted to problems of education—including about two-thirds of the conference membership—a special meeting devoted to technical questions of education, two sessions of a special round table on communications, and a general session on education, all came towards the end of the conference. They had been scheduled to follow upon those at which economic conflicts were discussed, in the hope that they would take up specific questions about the ways in which economic interests and social attitudes affect and complement each other in the pressures of public opinion on national policies. To see clearly such relationships as these proved no small task. For, even in such a body as the Institute of Pacific Relations, there are established differences in social attitudes that interfere with a thoroughly objective and scientific exploration of this connexion. Social scientists, educators, and men of affairs do not usually consult each other but independently pursue their ends. As a result, when representatives of these classes do meet, they find that they do not speak the same language. Thus, there had to be a good deal of definition of terms; and even then the approach of the speakers varied so much that the round tables experienced for themselves one of the most interesting phenomena in the formation of public opinion—namely, the fading out of national differences as differences between interest groups appear in sharper focus. Members who had given much thought to fundamental educational questions had no difficulty to understand and to agree with each other. With them, the main question was how to save and enlarge human potentialities for intellectual and spiritual growth that are threatened by the pressure of uncontrolled material influences. Those, and they were the majority, who had been attracted to the conference primarily because of their concern over questions of world trade and the changing basis for it in recent economic developments approached the subjects for discussion from the opposite standpoint: economic forces were the given ‘facts’ to be faced, and humanity had

¹ For detailed question outline see Round-Table Syllabus, Appendix IV, p. 470.

to be adjusted to their changing requirements. Perhaps it might be added that this contrast in attitudes did not come to the consciousness of all the members ; most of them were content to deal with one difficulty or problem at a time, and did not see its connexion with a whole series of related problems.

Another difficulty was that no serious preparation had been made by most of the members for this part of the conference. In the preliminary statements of the conference agenda by the International Programme Committee, no detailed indication had been given of the subjects likely to be discussed under the general heading of education. On the contrary, the impression was given that this was more in the nature of a concession to members who were not content to give the whole time of the conference to the discussion of economic problems. The International Research Committee had not seriously taken up educational studies and, indeed, was not qualified by its composition to do so. Four of the National Councils—the British, the French, the Japanese, and the American—presented one data paper each ; but these were unrelated in subject-matter.¹

The discussion syllabus assumed a knowledge on the part of the members which only few of them possessed—with the result that when, at the request of the chairmen, general statements of fact were made by representatives of various countries, these often represented a layman's impressions rather than a carefully prepared documentation. It was also in consequence of this circumstance that there was almost as much disagreement on facts between members from the same country in regard to national developments as there was between members from different countries in regard to international influences.

In short, these round tables represented a general exploration of the subjects relating to education, by lay people with various interests and various degrees of reliable information, and not an attempt at co-operative analysis of a given body of objectively stated data. Since more of the members had a personal relationship to the press than to the public school system of their respective countries, it followed that more attention was given to the former than to the latter subject, without any implication as regards the relative importance of either.

DEFINITIONS

Early in the discussions it became clear that a sharper definition was needed of certain terms constantly on the lips of the members, but apparently used in various shades of meaning.

¹ O. M. Green, *Organization of News from the Far East* ; British Group. Heber Harper, *International Relations in the Public Schools of the United States* ; American Council.

'*Public Opinion*'. The subject itself was construed in several ways. Such a phrase as 'the public opinion of the world', for example, might mean the opinion of responsible representatives of governments (particularly in countries ruled by dictatorships or near-dictatorships), of the press, of the classes or groups primarily and responsibly interested in the matter under consideration, or of the broad masses of people. It is necessary, a Japanese speaker demonstrated, to keep distinct the makers, the organs, and the recipients or reflectors of what is called public opinion:

'I define public opinion as a general trend of views governing the sentiment, right or wrong, of the larger section of the populace within a given community.

'Three elements seem to be necessary, in the main, to constitute a public opinion. The first is the very maker of it, or an author, a composer of the plot—generally a few men of the intellectual class. The second is actors who play on the stage. The third is the spectators who cheer and applaud the play.

'A public opinion does not manifest itself as such simply because its maker has composed it. He requires certain actors through whom his plot will come upon the stage; these actors are the various agencies in the formation of public opinion. But if the plot is unable to catch the spectators it will die prematurely without getting popularity or, in other words, before becoming a public opinion. . . .

'Newspapers, radio, cinema, and so forth, stand in the position of actors who, under the direction of the author, present the plot before the spectators and expect their applause. Though the ultimate responsibility rests with the public which applauds the act, yet the masses of men are practically controlled through the manipulation of the information which is supplied to them. This proceeding is sometimes known as propaganda; and the influence of such authors or their agencies on economic conflicts can naturally not be ignored.

'The extent to which that influence should prevail must depend on how far the governmental system of a given country is democratic, that is, how far its economic policy should be controlled by public opinion. Democracy does not necessarily mean a governance by the masses. The requisite condition of real democracy is order and justice. If the democracy is well controlled and well directed by order and justice, and not by the rash and clamorous voice of the masses, it may have the effect of mitigating economic as well as political conflicts. Otherwise a contrary result will necessarily ensue.

'Matters to become objects of public opinion must essentially be of a kind accessible to the understanding of the masses. Those which are hard to be understood through intuitive knowledge or common sense are naturally less likely to become foci of public opinion. Therefore, economic questions that do not directly concern the daily livelihood, particularly those involving foreign relations, are less likely to become foci of public opinion, and conse-

quently less influenced by public opinion than questions concerning political conflicts. Nevertheless, as the line of demarcation between economic and political questions is gradually becoming less sharp, the influence of public opinion on economic conflict in democratic countries seems to be increasing year by year.'

Although this statement contained a number of debatable issues, most of the members seemed to be content to let the discussion of concrete cases rather than theoretical definition clarify what is meant by public opinion. The only obvious question raised was whether the 'author', in the sense used above, must increasingly become the state—employing, as in Russia, all the agencies for the formation of public opinion to 'act out the plot'; or whether, in spite of this tendency, it is still possible in democratic countries for many 'authors'—that is, individuals and groups with separate interests—to act upon the masses.

'*Understanding*'. In another round table, the word that seemed to give the most difficulty was 'understanding', particularly when used with the adjective 'international'. The difficulty was explained at a general session by an English educator as follows:

'There is an ambiguity in the word "understanding", and perhaps it is better to avoid its use altogether. The ambiguity is this: one person may understand another person, one group another group, one nation another nation, in the sense of appreciating what the other can do, or seeing eye to eye with it, of coming into some kind of sympathetic agreement with it—an eminently desirable state of things. Or, on the other side of the question, a person, a group, or a nation may "understand" another person, group, or nation merely in the sense of gaining knowledge about it. These two meanings of the word are easily confused. In the first sense, understanding might be taken to be almost synonymous with peaceful relations; in the second sense, no one can say that such understanding is certain to become a cause of increased peace.'

The round table that tried to apply this distinction of meanings soon came to the conclusion that merely informing one country about another—so largely relied upon by certain groups as a method of producing friendly relations—may make for dislike and apprehension or contempt rather than for attitudes predisposing to co-operation. This recognition was seen to be of practical importance because in the formation of public opinion on international questions in several of the countries represented two opposing schools are at work: the one endeavouring to counteract propaganda unfriendly to another country or people by favourable propaganda, equally appealing to the known sentiments of the masses; the other endeavouring to produce a sense of community of interest by a realistic presentation of the facts, at the risk that a superficial knowledge of national interests and viewpoints may also sharpen rather than

soften contrasts. It was said, for example, that the traditional friendship of certain Western countries for China and the Chinese was in part due to lack of understanding, in the second sense—that is, lack of the necessity to deal with China as a neighbour, such as Japan has experienced. That the spread of information may produce conflict rather than harmony was felt by several speakers who seemed to summarize recent world experience in the general finding that expansive popular attitudes predisposing to international co-operation largely result from the use of ‘educational’ means by groups sponsoring idealistic purposes, whereas a timid and defensive nationalism results from a facing of the material facts. An American member, after having emphasized that exclusive nationalistic measures and policies also are fostered by an appeal to sentiment, gave it as his view that in the hands of both the nationalist and the internationalist ‘facts’ often become dangerous implements.

‘We must attach great importance to the part played by the mere spread of information over larger areas in bringing about conflict. This applies to accurate as well as inaccurate or prejudiced information. Since it brings to light conditions not otherwise known, it accentuates the differentials between groups and places.

‘For example, there was no pressure on the people of China or Japan to come to California until communication across the Pacific developed to permit a spread of information which made people want to emigrate to so rich and fertile an area.

‘This is also true of information about standards of living which reveals differences. Adam Smith pointed out that there were great differences in the wage rates of different counties in England, owing to the fact that people often did not know about conditions only twenty miles away from their home. Once such information becomes known, there is a movement of people from the area of lower to the area of higher wage level, tending to depress wages in the latter and to produce conflict between the original and the incoming inhabitants.

‘The same principle holds true of markets and all other economic factors. The spread of information is a major element among the conditions that bring about conflict: two industrial concerns do not quarrel when each is ignorant of the other’s market; and that is true also of nations.’

At another session the same member pointed out that a rapid spread of information, due to new possibilities of communication, is dangerous not only when the information relates to facts but also when it relates to ideas.

‘As people have a natural inclination to read about conflict, the newspapers and other organs of communication, unless they are controlled, are bound to emphasize strife.

'Another aspect of the problem lies in the danger that, owing to rapidly increased communications, one culture is pressing too hard upon another. A foreign culture can be assimilated if the process is gradual; but, with the means of communication which we now have, there is much too rapid a movement of ideas from one culture to another; and the question arises whether it is not the duty of states to exercise rigorous control over this transfer of ideas which is often harmful to the established interests.'

This comment may, perhaps, serve here to introduce a brief summary of the more theoretical discussions of propaganda before we turn to those of particular instruments of propaganda.

PROPAGANDA

'What is propaganda?' asked an English speaker who had previously expressed himself as 'horrified' by the thought that the restriction of the free movement of ideas might be looked upon as a legitimate or even necessary function of government:

'We are too prone to class as propaganda any dissemination of ideas with which we do not agree.'

'The distinction between propaganda, information, and education', asserted another member, 'is not very great. Facts have an emotive value which affects people's attitudes. Material communicated to affect people's attitudes is propaganda.'

From considerations of this sort it was an easy step to proceed to an examination of the effectiveness of propaganda. An American member pointed out that Soviet propaganda in the West had largely defeated its own ends by arousing fear, while, on the other hand, only few circles were fully informed of certain facts in Soviet Russia which, widely disseminated, would have produced favourable attitudes. Although sharing with others a strong dislike for the social theories and ideals which had for some years constituted the main content of Russian propaganda in Western countries, he had been deeply impressed by the facts about the actual superiority of the conditions enjoyed by certain classes of workers in comparison with those in other countries—facts which had become known to him only through personal investigation.

'There are various forms of Russian propaganda in the United States, among them articles especially prepared in English, describing the joys in the life of the workers under the Soviet system. Scarcely any of the 350 American Labour papers have printed this stuff. The American Federation of Labour is, perhaps, unreasonably hostile to this kind of propaganda, largely because of the methods and type of man employed. Its attitude is that if Russia really has something worth while to contribute all it has to do is to prove it. We might be glad to copy it; but in the meantime we should be left alone.'

A British member considered propaganda ineffective whenever it deals with matters of direct and intimate concern.

'Is it not economic interest', he asked, 'rather than propaganda which directs conduct? How far are "Buy British" or "Buy American" campaigns effective? They unquestionably influence some—but how many? A group in India started the home-weaving movement. How far did it get in a population of three hundred and fifty million people? If a government takes a hand, "inspiring" the press, such a movement can, of course, spread farther. But, in general, propaganda cannot for long prevail against free economic intercourse. For example, the Empire Marketing Board is about to be given up, despite the fact that it has been supported by a great deal of propaganda. It has not been economically effective; or the manufacturers would not let it die.

'In other instances—notably in connexion with the promotion of land investment and migration—propaganda has been very effective. The results at times are so vicious that those responsible should be regarded as criminals.'

A political scientist gave it as his opinion that there is always a good reason why in one case propaganda seems to be effective and in another ineffective. He disagreed with the theory which seemed implied in some previous discussion that there is conflict between public opinion and propaganda.

'Propaganda is the way in which public opinion is made. It may sometimes be unsuccessful, but it is not always so. Public opinion is the mass attitude on questions at a given moment of time, brought about by the propaganda of government and private organizations. Business corporations and political parties have a steady influence on public opinion. Often their propaganda is highly effective over long periods.'

These facts were not disputed; but still doubt was voiced whether the influence of propaganda is so great that it can affect for long the general mass of commercial transactions to the prejudice of international relations. It is effective, some of the illustrations given implied, so long as it coincides with a widespread economic demand—until the object of the propaganda is proved by experience to be undesirable. To this the objection was made that attitudes, once they have been established, can for long be sustained by further propaganda even when, in the light of experience, they might be considered as being without foundation in fact.

Attention was invited to the distinction between topical and permanent forms of propaganda. The press of a country, it was pointed out, is in a position rapidly to follow the desires of the Government or of a party in support of its policies; a revision of text-books, on the other hand, cannot take place with every shift of diplomacy. The tendency,

therefore, is for a steady propaganda in favour of traditional national ideals even when these are no longer serviceable to the state.

'In every case where propaganda takes effect', said an educator, trying to summarize the agreement of the group, 'it does so by playing upon a body of permanent dispositions in the minds of people. When propaganda fails to influence public opinion the reason is that it is not strong enough to overcome these permanent dispositions—such, for example, as the buying habits of the public.'

A minority of members maintained to the end that, despite appearances to the contrary, the vast propaganda machines that seem to influence public opinion to-day do not indicate the triumph of this method to secure support for policies; but that, on the contrary, there is developing everywhere a 'healthy cynicism' which is making people increasingly impervious to propaganda. How far methods of education can be used effectively to promote 'propaganda against propaganda' was considered more particularly in relation to informal adult education, and will be further discussed in that connexion. (See below, p. 248.)

Propaganda, it developed on another occasion, may take three forms, distinct yet often used in conjunction: first, campaigns for some positive objective—a tariff, a boycott, a bond issue, or the like; second, defensive campaigns or counter-propaganda; third, campaigns conducted across current issues to sidetrack public interest, or even deliberately to keep the public ignorant and apathetic in regard to a given issue.

CENSORSHIP

Censorship, from this point of view, may be regarded as negative propaganda; it endeavours to 'protect' either the public generally or a class or age-group from ideas, or to save it the effort of deciding between conflicting ideas. Several speakers were outspoken in the advocacy of this function of government censorship. It is necessary for the achievement of national unity, they argued.

'Countries that permit the free entry and circulation of ideas', said a member, 'are countries which for some reason are immune from the consequences. They are either very powerful or very small. Wherever a country has cause to be afraid of new ideas, that fear is a symptom of conditions which make control desirable.'

'Every country exercises some form of control over its organs of communication', said another. 'But that control does not uniformly extend to all organs of communication. Ideas which are set forth in books costing \$5 are not usually looked upon as dangerous; and newspapers in a large measure cancel each other. But radio broadcasting, where a practical monopoly exists, has begun to be controlled; and the same tendency is to be noted in regard to moving pictures.'

'In England', to quote a third, 'restriction on free speech has been reduced to a minimum. Once you pass this minimum, you soon reach a maximum. A natural consequence of placing in the hands of the Government the power to restrict the flow of ideas is that it will permit only such ideas to be disseminated as will ensure its remaining in power.'

A Chinese member characteristically defended the use of censorship by a government as sometimes a necessary means of defending the people against propaganda from outside, backed by force. Censorship was defended also as a means of mitigating a sharp economic conflict that threatens the unity of a country. But it was pointed out that such censorship is never neutral, and that its very fact, by creating distrust of the information available, opens the door to a wide, clandestine dissemination of misinformation and, thus, creates sharpened conflict. Censorship, it was averred, is 'too clumsy' a means to achieve its end, even if that end were justifiable.

How some governments of Pacific countries are endeavouring to keep their peoples ignorant of what is going on in the Soviet Union was illustrated by several examples.

'In New Zealand', one round table was informed, 'there is a new law which forbids any person to return for three years after visiting Russia, even though that visit was only a pleasure trip. There is also a very strict censorship of books; and every possible action is taken to prevent penetration by the Third International. The result of this policy has been to create intense feeling in a large part of the population which is both ignorant and fearful of Russia. They are kept in fear, through ignorance.'

In Australia the situation was reported to be similar to that in New Zealand, but with two important modifications: many Australians have visited Russia in the last few years and on their return lectured and written extensively about their experiences. The system of censorship has lately been recast. It was formerly in the Customs Department; and all imported books were passed upon by a minor official of that department. There is now a special board, composed of three highly qualified men, on whose report the Government acts. It is believed that this system will make for a more liberal admission of serious literature, however distasteful to the majority of citizens.

'If it were possible to suppress information about Russia in England', said a member of the Labour Party, 'it would be suppressed. But since this cannot be, much energy is being spent in publishing false information. I am sure that the Russian system could not have persisted so long if it were as bad as some people would lead one to believe. My feeling is that we have not enough information about Russia either to approve or to condemn; and for my part I am content to wait until such information is available.'

He had reference, he explained in answer to a question, more particularly to the 'yellow press' and to certain organizations. The fault he seemed to impute to the British Government was not so much suppression of news as failure to make known all the authentic information that would be of public interest and might offset misinformation circulated by propagandist groups. By failing to disarm such propaganda, he held, the Government sustains a policy of non-recognition of Russia, thus placing that country at a disadvantage in world trade, and contributing to economic maladjustment.

In Japan, a policy of specifically anti-communist censorship is justified by the phrase 'dangerous thoughts'. Thoughts, it appeared, are held to be dangerous only when they are expressed in Japanese. Certain newspapers published in Japan in foreign languages are permitted to print information that is not permitted to appear in Japanese newspapers. A Japanese member added:

'The Bill for the Suppression of Dangerous Ideas is aimed at the suppression of associations whose aim it is to overthrow the Government. Criticism of government action does not necessarily mean "dangerous thoughts" in that sense. In Japan, at the present time, the question of freedom of speech and of assembly in the traditional sense is much discussed. It is a question whether the suppression of such freedom is a wise policy to pursue in regard to a movement like communism which is so well organized as to tactics and strategy. It would appear rather to result from the defeatist attitude in the present situation.'

On another occasion, the strict censorship in Japan with regard to communism was explained with a war psychology. But the very strictness of this censorship, it was said, only made the more liberal Japanese papers the more eager to convey information about Soviet Russia without violating the law; and 'although the Government may issue orders to the papers not to publish anything about a given event, this in itself sets people talking about it'. Japanese censorship also applies to public meetings, which are attended by police officers who have the right of closing meetings when the talk becomes too radical.

In China, it was stated, the situation is similar to that in Japan.

'It is held to be justifiable', said a Chinese member, 'for the Government to adopt repressive measures against a movement which aims at the overthrow of the fundamental institutions of the country. Since communism has become a movement of armed rebellion against the Government, the latter has adopted such a policy. I do not approve of it; still less do I see the necessity for it in Japan where no attempt at armed rebellion has taken place.'

Extraterritoriality and the publication of newspapers under foreign control in the international settlements have increased the difficulty of this as of other problems for the Chinese Government. While its censorship is frequently disregarded, especially in Shanghai, the public is occasionally given only part of a story emanating from Government sources, with the result that a state of uncertainty, and even of panic, is sometimes created.

In Canada, the Criminal Code provides severe penalties for those who advocate violent means for the overthrow of existing institutions. There have been numerous prosecutions under this law, and sentences of imprisonment and deportation have been inflicted. These decisions, according to a Canadian speaker, have in the main been supported by public opinion; but there has also been censorship by such non-judicial bodies as the Customs authorities, and this has been condemned as arbitrary by a large body of public opinion. Attempts have been made, so far in vain, to change the provisions governing these procedures. A Canadian trade unionist informed the round table that organized labour favours censorship of communist propaganda but not of information about Russia:

‘We do not welcome vilification of our own institutions’, he added, ‘and a large part of the articles and other literature given out by the agencies of the Third International is devoted to such vilification.’

A Canadian newspaper man defended the rather strong action taken by several governments against the dissemination of all information from Russia, oral as well as printed:

‘The uncertainty and the conflict of opinion about what is taking place in Russia’, he said, ‘is partly due to the Russian system of censorship. The policy of the Soviet Government strictly to limit the movements of those who are trying to investigate conditions, and to censor all news dispatches that leave the country, makes it almost impossible to obtain accurate information. An American railroad president who has been travelling in Russia told me that only one thing is certain about that country, namely, that no two people who go there come back with the same impression.’

The last remark of the Canadian speaker seemed to some to contradict the first; for, they said, this variety of impressions would be impossible if there were not considerable freedom of movement for travellers and correspondents in Russia. In fact, it was claimed that access to sources of information is freer in Soviet Russia than in many other countries; and an American educator pointed to the great vogue enjoyed by books on Russia, which certainly would not be the case if they all told the same story. He explained a widespread popular demand for information

about Russia in the United States, in spite of evident fear of 'bolshevism' in many quarters, by the growing dissatisfaction with the existing economic situation which led many people to watch the Russian experiment in a more open-minded attitude than was the case a few years ago.

While several speakers further insisted that governments had the duty of protecting their citizens against news coloured by propaganda, the discussion showed that any effort to ensure that foreign news be accurate and free from bias was bound to fail. It was pointed out that, apart from official information of a statistical character, no statements about a great country in the throes of reorganization could be true of every part of it. This situation exists not only in Russia but also in China, where an Australian member was told: 'When you return to your own country, you may say anything you like about China. It will be true somewhere in China.'

In the United States, the situation is similar to that in Canada. It was reported, however, that the present Administration was taking a strong stand against illegal deportations, such as had taken place in recent years and been given wide publicity in a report of President Hoover's Commission on Law Enforcement (the 'Wickersham Commission'); and a new administrative procedure was being worked out by the Department of Labour to prevent the arbitrary exercise of power by minor officials. The popular attitude in the United States also was much the same as that described for Canada.

In France, it was reported, government control is less severe than in most countries, but the pressure of private interests on the organs of public information is more pronounced.

While evidently there are considerable variations in the kind and relative completeness of censorship exercised by various governments, three considerations were seen as influencing it in the main: first, the relative nearness or remoteness of danger to the existing institutions from the spread of revolutionary doctrines; second, the degree to which national unity is needed to face hostile forces from without; and third, the state of the population's general knowledge and literacy. In regard to the last-named point, it was stated that in countries, such as Siberia, where the larger part of the population is illiterate, the printed word, when some one is found to read it, is accepted with absolute credulity and exercises an extraordinary power. In such a country, an irresponsible or deliberately propagandist dissemination of ideas may actually threaten the existing system to such an extent as to warrant a fairly complete censorship in the interest of law and order. Even a rapid progress in education could not be counted upon to create very quickly a state of enlightened knowledge that could safely be entrusted with

discrimination between serious theories of government and appeals to the emotions guided by self-interest.

NATIONAL AND INTERNATIONAL AIMS

Both propaganda and censorship are international in their outreach. Censorship of outgoing news is most familiar, of course, in war time. But both governments and other powerful organizations in Pacific countries maintain a certain amount of vigilance at all times lest information prejudicial to their interests be disseminated in other countries. More serious as a menace to good international relations are the efforts of certain governments actively to disseminate in other countries propaganda favourable to their own interests there.

It was reported that foreign propaganda is not limited to the obvious subjects and channels—that is, state policies and agencies of news distribution. Efforts genuinely intended as educational also, discussion showed, sometimes produce international conflicts of ideas. Teachers who proclaim international rather than national ideals often are accused—nearly always unjustly—of being in foreign pay. This is merely a symptom of conflict that lies deeply embedded in the educational system of every civilized country to-day.

That almost all 'education' promoted with the object of improving international relations is propagandist in nature was the view expounded by a European observer:

'We must be very critical of our doings. When we speak of "education" as a part of our work, we have a definite aim. We are not entirely neutral. Our aim is to make people more internationally minded—or, at least, to make them more understanding and co-operative. This is propaganda in the sense of education for a purpose. Personally, I think that education for any purpose has a detrimental effect. The question is, what can we do instead ?

'Every nation is building up an educational system on certain national ideals, and therefore it goes into propaganda for national ends. Americanization, Chinazation, education for a certain economic system, whether in Russia or Denmark, all illustrate national aims in education. Countries with a dictatorship want to promote one ideal alone. In other countries, several interests are striving to promote ideals, and these somewhat offset each other. And since all nations have one ideal or several ideals, they are sensitive to the intrusion of foreign ideals. They likewise object to those who have the ideal of being internationally minded. Moreover, in the Far East and in central Europe this tendency is also due to the fact that they have been under foreign influences so much that now they want to get back to their own cultures and ideals. They want self-development.

'We should study these national educational ideals in view of their implications for international relations. How far can they be harmonized with the ideal of international co-operation ? We must find out if more regard

can be paid to international relations without hurting the national ideals. On the other hand, we might also discover to what extent national ideals already contain some understanding of international relations. . . .

'We should restrain ourselves when promoting our own ideals and ideas from distorting those of other countries. We will want to restrain our educators from doing so. If a group of men were willing to impress upon the educational systems of their own countries the need for an enlargement of their view of the world, to combat provincialism, they should be considered propagandists. The danger is that many believe that they do not engage in propaganda when they are actually pursuing a purpose of that nature.'

A Chinese member who in his own work has exemplified the maxim that a profound study of, and reverence for, Chinese culture may very well go together with learning from the West such scientific knowledge as may help to enrich life and to solve economic and social problems, took issue with those of his countrymen who would entirely reorganize Chinese education in continuation of the traditional system and to the exclusion of all foreign influences.

'This movement in education is reactionary', he said. 'It is promoted largely by people who have never been abroad. One of its leaders refuses to go to a cinema. The question is, Do we want our people to go back to their old conditions, or do we want them to have a sense of material values, a desire to raise their standards of living, and to have some of the new things—such as modern ideas of cleanliness? Wherein lies the *via media* between the road back to primitive society and extreme Westernization?'

A British member further analysed this conflict:

'Nobody who is engaged in education can fail to be conscious of forces which twist the educational process. In the West it is the social motive in a crude and ugly sense. The national ideals which are dangerous in the modern world are guided by this narrow and restricting influence. The worst thing that people in any educational institution can do, in the judgement of their fellows, is to be "unpatriotic" and to break the conventions connected with the national ideal. . . .

'I take it, we have to recognize that there may be national ideals which are incompatible. In dealing with national ideals, we are dealing with explosives. The economic situation is like the barrel of a gun in which inflammable national ideals are held; a spark may at any time cause an explosion.

'It is said that increased mutual understanding will ease the situation. I question this. Mutual understanding in the sense of having a clear idea of what the other is after and what he really desires and can do has constantly been a cause of conflict, and the promotion of such understanding the means of increasing conflict.'

Yet, every session of the round tables on education produced additional evidence that a larger mutual knowledge between the peoples of

the Pacific, whether it leads to understanding or to conflict, is inevitable. There were reports of the enormous increase in the use of newsprint; communications have expanded and cheapened; illiteracy is being diminished. Above all, new instrumentalities of education or propaganda, call it what you will, are bringing news of the world to the ears and eyes of millions of unschooled people in forms that make for a high degree of absorption. To quote the report of one of the round tables at a general session:

‘Closely linked with problems of rural reconstruction is the possibility given by new devices to make unnecessary a purely academic type of education. These are devices for the extension of the senses of sight and hearing. The cinema and radio, in their probable development, may change the stress which in the past has been laid on a literary education and tend to lay it on matters more intimately related to active human lives.’

The conflicts between national and international ideals, in so far as they are due to an education through the medium of the printed word, may be considerably mitigated, some optimists among the members believed, by the more direct and simple contacts which these new instrumentalities of communication afford. One of the reference documents before the conference gives numerous examples of the ways in which the gramophone, radio broadcasting, and the film are aiding education for international understanding. The author urges further steps to make these mechanical aids more widely available.¹

In the following sections, necessarily brief summaries are given of the round-table discussions dealing both with these new instruments and also with the older established and as yet more influential means of communication, the press, the school, and informal processes of adult education—each in relation to the major subject of opinion and international conflict.

THE PRESS

One of the data papers before the conference on this subject was a contribution from a former editor of the *North China Daily News*, one of the most influential of foreign newspapers published in the Far East.² This paper attempts to answer—for China only—two questions of primary importance: first, how adequate is the exchange of news between East and West; second, to what extent and in what ways is the news circulated biased by propaganda?³

¹ S. H. Bailey, *International Studies in Great Britain*; London, 1933, Chapter V.

² O. M. Green, *The Organization of News from the Far East, British Group*; 1933. (Mimeographed.)

³ Another data paper, *Communications*, prepared by the Staff of the Tokyo Institute of Political and Economic Research (Japanese Council, 1933), Chapter III, presents the

Round-table discussions centred largely on the second of the questions asked. Unfortunately, efforts made by the chairmen to elicit information on the extent to which the newspapers of the Pacific world are subjected to political and economic pressures from without did not yield substantial results—not because such pressures were not known to exist, but because, as there had been no searching inquiries, it was not possible to provide convincing evidence.

The editor of a British paper published in China supplemented the information given in the data paper by stating that circulation is not a reliable index to the influence of newspapers. Thus, the foreign-language press of the Far East, in spite of its small circulation, is carrying much weight, not only with foreigners but also with the Chinese. On the other hand, foreign-language papers published in Western countries often have no influence commensurate with the size of their circulation. It was felt that this was not so much a matter of national prestige as of the actual confidence enjoyed by papers and news services that have gone farthest in eliminating bias from the reporting of news. In China, the reputation of various foreign newspapers varies considerably; but the acknowledged reliability of the best of them, it was stated, is due, in part at least, to the fact that they are less subject to government censorship than the Chinese-language press. Illegal interferences with newspapers and news services by local officials were occasionally giving a good deal of trouble. Because of the completeness of the Government's control over the Chinese press, pressure of private economic interests, except when coinciding with the interests of the governing party, is less in evidence than in some other countries.

It was generally denied that advertisers have an appreciable influence on the policies of newspapers in Japan, the United States, France, Great Britain, the Netherlands, or any of the British Dominions. To some members it seemed that there was a lack of frankness on the part of speakers associated with publishing or news-gathering agencies from these various countries. But the explanation given was that publishers have learned from experience that it does not pay to give the readers other than objective news. More serious as a factor making for distortion of news, it was said, is the tendency of editors to try to play up to what they consider to be the political and economic views of their readers. Especially where national feeling runs high, as in Japan, editors were said to be timid, not because of fear of government censorship, nor

main facts about newspapers and news agencies in Japan. Both papers will be drawn upon at length in a *Survey of Communications in the Pacific*, to be published in 1934 and co-ordinating a number of studies made in several Pacific countries. (See Appendix V, p. 476.)

because they might lose revenue from advertising, but because the subscribers expect to have their views reflected in the paper they read.

A Chinese member complained that a tendency to enlarge upon sensational news and to neglect to report adequately the constructive efforts of foreign governments was a source of misinformation in the Western press. Another remarked that a similar effect on the mutual knowledge of Pacific countries resulted from the failure of newspapers to cover all aspects of the social and economic life. Both news and advertising give a wrong picture of a foreign civilization because they are devoting a disproportionate amount of space to the concerns of the well-to-do classes.

Whether advertising to any extent affects the general social and economic ideas and attitudes of people remained in doubt. Newspaper advertising is producing undesirable, even dangerous changes in the tastes and habits of the people, it was said, by establishing standards of luxury outside the grasp of the majority of readers, and thus creating dissatisfaction and resentment that makes itself felt in unreasonable criticism of the political and social system. The opposite view, that advertising stimulates demands and energizes labour, thus helping to raise standards of living, was not represented.

A good deal of discussion about the operation of news agencies and their relations with the governments of the Pacific was too technical in character and insufficiently supported by objective evidence to be summarized here. Perhaps the one fact standing out was that, with the reduction of cable rates and the great increase in the aerial transmission of news, the volume of information exchanged between the countries of the Pacific and interested in the Pacific has grown enormously in recent years. The chief difficulty to an even freer exchange of news to-day was seen in the continued interference by governments with the distribution of news. To quote the summary of the round-table discussions presented to a general session by one of the chairmen:

There was a general agreement that in the circulation of news through the press there is a danger not only of the inclusion of inaccurate news but of deletion, selection, and special emphasis, which undoubtedly do have their effect upon international strife. Still, with all these dangers, the round tables appeared to consider that the dangers of private enterprise in the dissemination of news were less than those of government control. This is especially so at this time of a violent swing towards nationalism.'

RADIO BROADCASTING

The use of radio in connexion with the distribution of news by press agencies received more attention in the conference than its direct impact

upon public opinion through broadcasting to the homes. The reason probably was that there was almost no authentic first-hand information on this latter before the conference. The only statistics presented were those of the Japanese study of *Communications*, previously mentioned (p. 229). The large proportion of news in Japanese broadcasting—41 per cent. of the total number of hours in the year 1931-2—reinforced by a large proportion of time given to 'talks'—31 per cent.—shows how closely this new instrumentality of communication relates to the formation of public opinion on current affairs. Commercial advertising over the air is prohibited in Japan, and the whole system is operated by a single corporation under the direct supervision of the Government. The revenue comes from the exceedingly low fee of 75 sen a month for 220,000 receiving sets in the Japanese Empire.

'Government censorship of broadcasting in Japan is very strict and far reaching. The full manuscript of every paragraph to be broadcast (excepting a few items of "economic news") must be submitted to the censor beforehand, and whenever the actual broadcasting varies from the original manuscript, the authorities may switch off the programme.'¹

A Japanese member gave it as his opinion that the radio service of his country definitely contributed towards international understanding. It effectively supplements the foreign news given in the press, and incidentally also provides aid to the teaching of foreign languages in the schools. No propaganda of any kind is permitted. The Japanese in their turn are much upset about radio broadcasts from Siberia. If these were in Russian they would have no complaint; but they are in Japanese and English, and definitely for the purposes of propaganda. The Japanese broadcasting monopoly and the Government feel that it is an unfriendly act of a foreign government to help in instructing the Japanese people about communism.

In China, there are seventy-two broadcasting stations, all privately owned, but under government regulations. The Government reserves the right to ask these stations to broadcast official statements.² Since many of the stations are in foreign ownership, and the most important of them are situated in foreign concessions and settlements, the power of the Government over them is, in fact, incomplete. It has published provisional recommendations which, however, require the consent of the extraterritorial Powers before they can be put into effect.

The Government's own broadcasting station at Nanking, one foreigner

¹ *Op. cit.*, p. 20.

² 'The Ministry of Communications, whenever it deems fit, may instruct private stations to broadcast mandates of the Government, news concerning Government activities, and propaganda matter of benefit to the public. . . .' *China Year Book*, 1933, p. 352.

long resident in China observed, is more likely to create international conflict than the private stations. However, no specific instances were mentioned in which this had been the case.

A detailed description of the British system was received with special interest by the members because of the recognized superiority of its educational effectiveness. It was stated that the power of the Government is strong because it is rarely exercised to interfere with the policies and programme of the British Broadcasting Corporation. Although this corporation is responsible to Parliament, the principle is that if the party in power gets time to promote its views on any given topic, representatives of other parties are entitled to a similar allocation of time. There are occasional criticisms that this principle is not fully enforced. Two restrictive rules are observed, apparently with the approval of the public at large: first, that nothing is put on the air that may impede the Government in the pursuit of its foreign policies; and, second, that no propaganda is allowed for theories implying the overthrow of existing institutions by violence. In general, the programmes correspond to the demands of the listeners—an effort being made to meet these demands on the highest level of excellence and to develop methods for integrating the radio programme with other instruments of education. Details of this system are given by S. H. Bailey in the reference paper previously quoted.¹ He says:

‘Broadcasting has been most generally and most successfully used in the field of adult education, both indirectly and directly for the study of International Relations. Indirectly the adult programme of British and foreign stations has an obvious educational value in acquainting listeners with the events and achievements of foreign countries. . . . The B.B.C. . . . has made direct provision for facilitating the study of International Relations through the following means: (a) sequences of talks on international affairs by acknowledged experts; (b) weekly commentaries on “The Way of the World”; (c) talks on topical events in different countries; (d) simple morning talks . . . [which] include at least one series weekly with an international outlook; (e) weekly lessons and conversations in various modern languages. All of these are financed by the funds of the B.B.C.’

Of the Canadian Radio Commission’s interest in international affairs the conference had an illustration through the broadcasting from Banff of four programmes relating to the conference agenda to the whole Dominion. Three of these programmes, through the co-operation of the two principal networks in the United States, were relayed to every corner of that country; and one of them was given in French for the benefit of Canada’s French-speaking population.

¹ *Op. cit.*, pp. 99–104.

In the other Dominions the aid of radio broadcasting to popular adult education in international relations also is well advanced. From Australia it was reported that

'the national stations have at least one fifteen-minute talk daily on foreign affairs, in some cases by expert economists. Important private stations have similar talks. The League of Nations Union has one programme of fifteen minutes a week. Every day there are talks by returned travellers. During the last year, a series of Sunday evening programmes was given, in which representatives from many countries were given a hearing, each of these speakers being followed by an Australian speaker who summarized the relations of Australia with the country discussed.'

The part played by radio broadcasting in the United States in forming public opinion on international affairs was described as being still in an embryonic stage. Although programmes promoted by the Foreign Policy Association and other bodies are appreciated and frequently broadcast over a national network, the private operation of the whole system and its dependence on advertising for revenue were seen to stand in the way of a large extension of any educational uses of radio. Stations designed to serve education and co-operating with universities and high schools do not yet reach large numbers. The total impact of the radio on public opinion, in spite of its obvious advantages in reaching every section of the population, is so far almost insignificant compared with that of the press and the moving picture, largely because of the difficulty of getting serious programmes financed.

From the Netherlands it was briefly reported that that country, as few others, lies open to information and propaganda through the air from many countries. Government censorship of broadcasting from Dutch stations is correspondingly liberal, though submission of all speeches in advance is insisted upon. In the Dutch East Indies, broadcasting is similarly free from active government interference; but, because of the small number of receiving sets in use, its influence is small.

The general view of the round table which discussed the influence of radio on public opinion seemed to be that it is growing, and that with this growth there is likely to be increased attention to possible methods of control—particularly to the introduction of mechanical means for excluding foreign messages. So far, only Japan seems to have succeeded in doing this to any extent. On the other hand, the view was stressed that the direct transmission of the human voice from one country to another provides as few other instrumentalities the sense of intimate international relations. The desirability was stressed of exploring further what practical conditions have to be met to make radio a more active and influential means of creating a Pacific community sense.

THE MOTION PICTURE

Even less developed, it appeared from the discussions, are efforts to place the cinema at the service of international understanding in the Pacific area. On the contrary, as at previous conferences so again at Banff, many complaints were made as to the detrimental effect of the international distribution of motion pictures on good relations between the Pacific peoples. Particularly was this complaint addressed to the American motion picture industry. It had long puzzled American members of the Institute why, with the increased attention of the Hollywood producers to the demands of public morals, and the undoubted improvement in that respect of films shown in the United States, there should still be so much criticism from foreign countries about the evil influences of these productions on the morals of the young. The explanation was discovered to lie in the fact that films which are cut to meet the demands of American state boards of censorship are often exported without cuts, and shown, especially in Oriental countries, in forms in which the American public does not see them.

Another explanation given why films exported to the Orient are subject to criticism was that, with the advent of talkies, foreign distributors naturally select those products of the American film industry in which action speaks for itself, that is, largely gangster and musical-comedy films. This automatic selective factor, it was stated, may well have increased the bad influence of American motion pictures in the Far East at the same time that pictures shown in America were improving in quality.

An American member connected with one of the large producing companies said that no films were manufactured for export, the profit on which is marginal compared with that on home distribution. Although the motion picture is capable of carrying propaganda, it is sold primarily for entertainment; propaganda pictures are occasionally made for American consumption but not with an eye to showing in foreign countries. Uplifting pictures are scarce because in relation to the market for them the cost of production is too high.

The question was raised whether, in the interest of good international relations, it was not possible to establish a board of export control. This suggestion was not considered practical, because it is much easier for a board of censors in the receiving country to decide what is and what is not offensive.

Some of the Oriental members were disturbed more by the false impressions which Western motion pictures convey of the cultural values of Western civilization than by any direct incitement to licentiousness. A Chinese student wrote home from America in surprise that 'American

students also study', a piece of news which movie fans without other sources of information may well receive with incredulity. Young people are trying to imitate movie actors in dress and manners; there are cases also in which young people are carrying into action serious decisions in line with axioms of behaviour implied in movie plots.

Even if motion pictures were representing Western life more realistically, however, their influence, in the opinion of some Oriental educators, would still be deplorable. The prestige of Western civilization is such that its graphic presentation has a disruptive influence on social life—and this even in circles which are fanatically nationalistic. This influence was contrasted with that of missionary institutions which, no matter how foreign may be the thought that inspires them, nevertheless, being on the spot, are to some extent modifying their teaching by a recognition of social traditions that have proved their value.

Secondary in importance to most of the members seemed the occasional misrepresentation of foreign character or foreign manners in moving pictures, although, since these cases are specific, there had been more outspoken complaint in the press about them. In China, all imported films are censored by the National Government, particularly from this point of view. It also censors films produced in China—as yet few—that are intended for foreign showing. Scenes shot in China for Hollywood productions in one or two cases had to be done over before their export was permitted. Similar complaints had been made in New Zealand concerning films alleged to represent Maori life. A movement for stricter censorship, both of film production and of films exhibited, is on foot in that Dominion. Australian members in two round tables drew attention to yet another source of complaint, namely, the large proportion of films portraying war or preparation for war. These films, usually imported from the mother country, were said to exercise an unwholesome influence on youthful audiences. Neither of the Dominions is able to support a film industry of its own, because of the smallness of the potential market and the high cost of production.

The British system of motion picture control was described in detail as a successful combination of national, local, and voluntary censorship. Attention was drawn also to the growth of local societies that exhibit to their members films for which there is no general market, operating similarly to 'small theatre' groups.

A desire was expressed at one of the general sessions that the studies made under the auspices of the Payne Fund in the United States of the influence of motion pictures on children be extended to secure more accurate information on their influence on adult international attitudes. It was thought by some that adult audiences generally are well aware

of the fictional character of motion picture scenarios and do not absorb from misrepresentations of foreign peoples or races lasting attitudes of contempt or antagonism. This was disputed by others, especially by Orientals who went so far as to say that even a more or less actual portrayal of people and societies is making for unfavourable attitudes towards them if it stresses historical survivals without sufficiently indicating the strides made towards modern civilization.

THE SCHOOLS

The variety of topics raised under this heading to be cursorily discussed, usually without reference to documentary evidence, is too large to permit of a formal summary. Among these topics were the following: international studies in the public schools and institutions of higher learning; illiteracy; the League of Nations report on education in China; moral disarmament through the introduction of appropriate courses of study; text-book revision with a view to the elimination of false, antiquated, or misleading information about foreign countries; the influence of outside agencies on public-school teaching that affects international attitudes; the relation of school policies and programmes to economic needs; the influence of internationalism on local cultures; vocational education; academic freedom; teacher and student exchange; language teaching; the teaching of current events. The syllabus before the round tables endeavoured to focus discussion on the relation between educational systems to economic conflict. But that relation was found not to be so direct as to permit exclusion of topics bearing upon cultural relations or on the fundamental theories of education that lie at the basis of school policies in various Pacific countries and dependencies. Moreover, in the actual discussions, questions relating to the schools and colleges were found to be closely interwoven with those affecting other agencies in the formation of public opinion and the larger purposes of those who guide them.

Literacy and Vocation.

One of these questions may here be named in the form in which it was actually introduced: 'Should children be protected against new ideas?' Or, in other words, does peace in the Pacific require that governments and peoples should co-operate with each other to keep away from children ideas and influences that may have the effect of disturbing the social or economic equilibrium of their respective communities? Examples were given of new experiments in centring education upon the locality or region, with its economic demands on human adjustment, its history and the viewpoints and traditions that arise from it. If the

object is to recreate the self-sufficiency of such areas, obviously everything must be excluded that disturbs the satisfaction of the inhabitants with the cultural values these offer, and the inherited appreciations—the latter including negative and defensive as well as positive and acquisitive elements. Such a policy underlies, in the main, the school systems of the great dependencies in the Pacific area, particularly Indo-China and the Dutch East Indies; that it does not preclude the introduction of improved methods and training of skills designed to raise the standard of living was evident from the testimony of those who described these policies. Literacy in the native language, when not only the school system but also to some extent the dissemination of literature is under control, may greatly enhance the ability of the people to protect themselves against those who would exploit their labour and increase their efficiency, without exposing them to ideas current in the outside world—ideas often considered by the school authorities as dangerous to their welfare and peace. One particular aim which seems to run through all such efforts is that of fostering contentment with the occupations that enhance rural prosperity as against the discontent which too often is fostered by a bookish learning that makes white-collar occupations appear more desirable and envelops them in more prestige than they deserve. Almost in every case where a school system to-day emphasizes and endeavours to improve a rural and handicraft civilization, it follows upon an experience of failure with a school system that went too far in imitating the characteristic emphasis of a Western urban civilization.

The theory was advanced that this earlier system, so far as the dependencies are concerned, was motivated largely by the desire to build up as rapidly as possible a market for the products—usually manufactured products—of the mother country. But a more satisfactory explanation seemed to be that in the earlier stages of a colonial régime it is felt desirable as soon as possible to cement political loyalties by inculcating ideas of patriotism and unity. In either case, it would be logical to argue that after a time this purpose becomes less pressing, so that the practical requirements of the immediate scene makes a correspondingly stronger appeal to the educational authorities. This line of argument does not, however, explain a parallel development in self-governing countries of the Pacific. Practically everywhere there is a reaction against an academic type of education that treats the small town as a step-sister of the large city, and the rural school as an underprivileged member of the school family, instead of giving each type of community the kind and diversity of teaching facilities it most needs.

Only incidentally is the movement towards manual training also con-

nected with a political aim. A Japanese member admitted as much when he said that the 'high-brow' graduates sent out into the world by the school system to-day are swelling the ranks of the unemployed intelligentsia among whom communist ideas are finding a fertile soil; and that for this reason there is need for the establishment of more technical schools. This is precisely the view of the Hawaiian authorities, who favour a less bookish and more practical manual type of education so that the children of plantation labourers shall not be caught by the unrest of the city population but be content with such opportunities as the plantations afford. It is also the outspoken desire of the administrators in Java and Indo-China to have more natives trained in skilled crafts than in business or professions; and according to Mr. Wyndham it is the colonial policy also in Ceylon and elsewhere.¹ Though several speakers laid the blame for an unsuitable type of education on the 'snobbishness' of rustics who desired to have the outward trappings of an urban civilization, the more reasonable explanation seemed to be that urban and rural dwellers alike have been caught by the super-salesmanship of the advertisement which makes lack of refinement little less than a crime. That more technical education would help the masses of either rural or urban populations was simply assumed but not proved. As has been stated in a previous connexion (see p. 102), some felt that the value of mechanical equipment for the farmer had been over-rated, while on the other hand in China—and not in China alone—one of the chief values of a 'literary' education for the exploited peasants is that they do get the kind of learning which will make them less liable to be duped.

But there were a few voices at the round tables to point to the dangers of a system of education in which the political and social leaders enjoy all the facilities for taking part in their country's commerce while the masses of the people are limited to local knowledge and manual abilities. The Filipinos, for example, in spite of the acknowledged failures of the school system introduced in too close imitation of that grown up on the American continent, would not go back to the class division implied by educational differentiation in pre-American days. Nor are there many in China who would advance national cultural and economic self-sufficiency by cutting out all the innovations introduced into the schools since government-appointed students first went out to study the educational theories and methods of the West. The Maoris of New Zealand were quoted in illustration of the theory that where educational equality is granted racial difference does not necessarily cause a social division between intellectual and manual workers.

¹ *Native Education*, London, 1933.

Anti-Foreign Teaching.

This concern also brought up the subject of anti-foreign teaching in text-books—a pet subject with Japanese patriots when directed against China, but not as yet investigated as to the extent to which it permeates the Japanese school system also. A Chinese educator thoroughly agreed that all such teaching is to be deplored, and indicated that salutary changes were taking place. The text-books complained about by foreigners, she explained, were written for the most part during a period of national awakening when nationalism took the form of an aggressive attack on the country's foreign enemies. To-day Chinese nationalism had entered into a new phase in which the mood was not that of national humiliation but rather that of pride in national achievement. Teachers realize that the former emphasis did not produce the invigorating effect on patriotic endeavour that had been expected from it; the danger of a collapse of Chinese nationality and civilization is seen as more remote, and object lessons of just pride in the nation are more abundant. A larger historical perspective is possible than in the days of revolution; and so the achievements of the Chinese people through the past ages also are finding their place more conspicuously in what is taught the young. A foreigner who knows China intimately corroborated this statement and pointed out that—except for the unfortunate events of the last two years—the tone of the press, more amenable to rapid change, already had improved as regards interpretation of China's relations with other countries, and that a similar change in the text-books might be expected to make itself felt more slowly.

That this is a question not only for China but also for other countries was shown by several examples. At a recent Pacific conference of educators a proposal had been made for the creation of an international board or committee

'to make an examination of the more important text-books of all the Pacific countries and note all passages which are not in accordance with the truth, and especially those which seem to have a malicious intent of stirring up hatred or prejudice against another nation. Such passages would first be referred to a national education association in the country concerned, and if in due time that should fail to bring a correction of the evil, then resort would be had to general world-wide publicity.'¹

Such a study has, in fact, already been initiated by the International Institute of Intellectual Co-operation of the League of Nations, which has published—first in 1931 and in a revised and enlarged edition in 1933—a review of *School Text-Book Revision and International Under-*

¹ *Report on the Pacific Regional Conference of the World Federation of Education Associations*, Honolulu, 1932, p. 20.

standing, including also the text of resolutions adopted by the International Committee on Intellectual Co-operation at its Fourteenth Plenary Session, in July 1932, recommending a procedure for the revision of text-books closely resembling that just named, and a further study of 'means of promoting, in the different countries, the compilation of text-books as well as historical and literary readers . . . of a nature to further international understanding'. Concerning the situation in Pacific countries, this report reveals that the Chinese National Government has, as a result of the criticisms contained in the Lytton Report, decided to make a revision of text-books used in primary and secondary schools; that an influential group of Japanese organizations has forwarded to the League of Nations a proposal for setting up a permanent bureau of international education, including a committee charged to undertake a critical examination of text-books; that the British Dominions, through their national educational authorities, already provide machinery for controlling the content of text-books; that in the United States this function is exercised by state and local authorities whose censorship of text-books, however, is as yet often negative rather than promotive. Accounts are given also of many voluntary efforts under way in various countries to include in programmes for better international understanding movements directed towards the improvement of the text-books used in their public educational systems.

Recent studies of school text-books in the United States had shown, an American member reported, that, in spite of some recent improvements, there still is much misinformation about foreign countries, inculcation of biased views about them, and, above all, an emphasis on the heroic character of the national history and achievements that sets all foreign countries into the shade.¹ Among English educators more emphasis is laid upon the need for supplementary studies of current international relations than upon a revision of the teaching of history and geography to eradicate too nationalistic a bias.² In Canada, likewise, internationally minded teachers, according to one member, pin their hopes on an imaginative teaching of current events. A similar movement was reported for Australia, where the formation of Public Questions Societies and other extra-curricular activities are encouraged, in part as a means to overcome provincialism.

An American member from Hawaii described a whole series of steps taken in that territory to match the unusual national and racial diversity of its school population with an imaginative programme of studies designed to interpret the Pacific world as a whole and in all its parts.

¹ See Heber Harper, *The Study of International Relations in the Public Schools of the United States*, American Council, 1933, pp. 270-2. ² See S. H. Bailey, *op. cit.*, Chapter IV.

This effort starts with teacher training for this special task, includes special courses and methods, and extension activities that bring a large part of the adult population also into the spirit of the effort to make Hawaii the cultural equivalent of an international cross-roads community.

Outside Influences on Schools.

The advantages and the dangers of a vigorous activity of outside agencies were recognized. League of Nations Unions, Junior Red Cross Societies, religious and idealistic organizations were mentioned as stimulating international studies in the schools of various member countries. But there were also warnings against reactions to the emotional character of much of this propaganda. In the preface to the British study previously quoted, Lord Eustace Percy says:

'The fact and the ideal of universal human brotherhood must be the overmastering assumption of all education, whether Christian or merely scientific, and no education which does not make that assumption part of the very air which the child breathes can be worth very much. But a child's realization of the meaning and implications of that assumption must come gradually, and must be based primarily on his own experience. . . . If it is probable that political knowledge must, to some extent, proceed outwards from the national to the international sphere, it is certain that moral teaching must be firmly based on the human relationships of every day before the learner can be expected to appreciate his duties as a citizen of the world.'¹

A special round table of educational specialists informed itself about the progress of the movement for moral disarmament emanating from the Disarmament Conference of 1932. The proposal of special interest to them was that each national member of the International Committee on Intellectual Co-operation report annually what steps had been taken in the respective country to plant into its educational system the intellectual concomitant of the Kellogg-Briand Pact for the renunciation of war as an instrument of national policy.² It was felt that this task demanded something more than the adoption of new educational maxims in the school systems of the world; rather, it demanded detailed studies of the ways in which the public school systems, and the institutions of learning, might create a real mutual knowledge of peoples, a real 'understanding' in the broader of the two meanings mentioned earlier in this chapter (p. 218). How, for example, could the schools help to make knowledge of foreign cultures a source of real enrichment without endangering the cohesion of the inherited culture of a people? Such questions as these, the meeting was informed, were already being studied

¹ S. H. Bailey, *op. cit.*, pp. ix-x.

² See Heber Harper, *op. cit.*, pp. 277-8.

concretely in relation to specific methods and subjects of school teaching by interested groups in several countries.

This section may fittingly be closed with brief comment on that particular cultural conflict arising from the present educational situation to which members of the conference gave most attention, namely, the school system of China as the point of impact for foreign ideas. It was recognized by those who knew the situation at first hand that the report on this matter, recently made by a committee of educators appointed by the League of Nations, was inadequate in several respects. Particularly Chinese members felt that the contrast between European and American theories and practices of education in their suitability for Chinese conditions had been overstressed in the report: what the Chinese want is neither American nor European but Chinese education. This does not mean, however, according to the best informed spokesmen, that many Chinese educators would want to see the school system of their country cut adrift from its established contacts with the Western world.

HIGHER EDUCATION

Progress in China.

Still speaking of the educational problems of China, a speaker at the meeting of educational specialists dwelt on the intimate association of rural reconstruction not only with general school policies but particularly also with higher education. In much modern criticism of the old Chinese system of education, he said, one element had been overlooked which made it much more practical in reality than it might appear to foreigners, and that was its retention of a rural environment to form the background of the teacher's experience and training, except during the short period of the examinations. A teacher, after passing his examination in the local or provincial capital, was sent to a province other than that from which he came and there lived close to the people. If he failed, or on retirement at the age of 50 or 60, he returned to his own village and there, often for many years, took an active part in the life of the community—practically all his adult life having been spent in close relations with a rural social structure and rural social problems. When the old civil service was abolished, some twenty years ago, many who otherwise would have become rural teachers wished to become officials and spent ten years in city schools because they were better equipped than rural schools to train for vocations of that sort. The additional cost of this city schooling introduced a class basis into rural leadership that soon made itself felt. Moreover, some of the best minds were diverted from rural to urban interests. There are now many educators in China, the meeting was told, who favour that no more middle schools and colleges be built in cities.

An account was given of the theories of Liang Ssu Min, whose work in Shantung during the last three years has aroused a good deal of attention. This educator, who has never been abroad, believes that neither Western individualism and capitalism nor communism as practised in the Soviet Union will ever suit the Chinese psychology. He has written a book entitled *How to Solve the Chinese Problems: the Final Realization of the Movement for Salvation of the Chinese People*. The thesis is that constitutionalism will not work as the basis of a Chinese democracy, but that a system embodying the cultural elements of the life of the people must be found. His general attitude is neo-Confucian.

The Government is much interested in Liang's school at T'sou P'ing Shan, which endeavours to express that principle. To make up the student body, he has divided the province into sections and from each section selects one man, graduate of a middle school—who must have been brought up in a rural setting—for a year's training in leadership. This training is very intensive, including theoretical study of agriculture and of systems of agricultural economy, such as that of the Danish co-operatives, practical work with improved implements and methods, practise teaching in village farm schools, and—to wind up the day—a self-critical diary written up in the evenings.

Another group of students is made up of university graduates and assists in educational research and experiment. The main object of their efforts is to devise means by which the rural communities of the province may be helped better to meet their economic, social, and political problems—the last named including also effective defence measures against bandits and communists. For example, in one area the farmers were shown how to manufacture their own fire-arms. District councils have been set up for discussing common problems, and a telephone system has been introduced.

The League report on education in China, it was stated, had failed to take account of this and similar promising experiments by dwelling too much on the formal elements in the present school system. Nor had it taken sufficient account of the new theories gradually being developed by leading Chinese educators, which in the years to come are likely to modify the educational system considerably. There are those, for example, who would scrap the present distinction between primary and secondary schools and substitute local schools serving all age groups, from 6 to 60, co-ordinated in a regional scheme providing facilities for more advanced training in district and provincial centres, with a national university at the apex. Each school would perfect its methods in relation to the immediate need and environment rather than represent merely a step to a higher school. The local schools would supply the problem materials for the district, provincial, and national schools; and each of these in turn would implement the next more localized type of institution. Thus, for example, from the village schools centred upon the problems of local farming, those would be drawn off to district

schools who desired to study larger aspects of farm economy, while forestry could best be taught, perhaps, in provincial schools, even though agronomic and forestry teaching also would be based entirely on local facts and needs; and the training of practical skills would be a common element of all types of institution. But, based on Confucian doctrines as it was, such an educational system would not be narrowly vocational. Modern and scientific equivalents were to be found for the old subjects of decorum, music, archery, writing, numbers, and arts of water (irrigation), fire, physical exercise, and agriculture. Here, then, were tendencies beginning to interest wide circles of educators, though the National Government had not so far taken official action upon them, which the League commission had failed to report.

Aims and Failings of Higher Education.

This statement evoked a sympathetic response from many of the educators present—in fact, it seemed to open a sluice to an international stream of complaint about the way in which higher education affects the schooling of the people. From Great Britain, Canada, and the United States, no less than from the smaller countries of the Pacific, came the same note of dissatisfaction: our institutions of higher learning are draining the intellectual energies of the country-side and contribute towards a serious disproportion between vocational opportunities and professional training. Lack of realism on the part of employers was blamed by a Canadian for the preference given in the choice of employees to holders of college certificates, with disregard of qualifications of physical and mental efficiency. ‘Matriculation gives a false educational prestige’, said a New Zealand schoolman. ‘High schools tend to take on the trimmings of colleges and send out graduates who are essentially peasants in their intellectual equipment without having acquired habits of industry’, said an American. University entrance requirements, said both British and American members, often stress values of no use in the modern world and do not encourage the acquisition of abilities for which there is a real need.

The reverse side of the picture was given by an English member, who said that business was increasingly carried on in a professional spirit since it had become more customary for business men to send their sons through college before entering a business career. He thought that too much was expected of universities or, in fact, of any institutions for vocational training; the need to-day was for continued re-education on the basis of a sound general knowledge. The entrance of men with a good educational background into industry had made for a general raising of standards of ethics and of efficiency. This process could be

quickened if more provision were made for later additional training through extension courses. A New Zealander gave it as his opinion that the emphasis on literary accomplishments made for mental instability—there had been references to the often thoughtless espousal of radical political doctrines by university graduates—and that it could best be corrected by a rounded presentation of economic theories and their historical evolution.

Not radicalism but irresponsibility was named by another speaker as the least desirable effect of college education. Unless students were reacting to too much idealistic propaganda by a wholesome cynicism and desire for objective knowledge, they were apt to be swept from one enthusiasm into another without acquiring the faculty of taking effective part in the solution of outstanding national and international problems.

Academic Freedom.

Mixed in with considerations of this sort was a discussion of academic freedom. The growth of nationalism, it was stated, had seriously undermined the position of teachers of the social sciences whose attitudes do not reflect the current mood. In China, 'only a rare educator of international prestige can openly criticize the Government'. In Japan, recently the dismissal of a professor whose views did not coincide with those of the Minister of Education had created a national issue; and a demand was being made by educators that the administrative authority should not have the right to remove a professor except with the consent of the faculty of which he is a member. The general principle was suggested that university teachers should have complete freedom of expression in the class-room, but should not proclaim their political or economic views in public except when their views are asked for by a public authority. To deprive such teachers altogether of the right to express themselves on public questions was seen not only as an interference with freedom but also as a great disadvantage to the conduct of public business—examples being cited in which faculty members had made outstanding contributions to the shaping of public policies.

A related question raised was whether teachers in institutions of higher learning are to any large extent influenced in their teaching by pressure from interest groups. Such pressure apparently is felt less in countries where the Government exercises full control over education than in countries where the colleges and universities have a considerable degree of freedom. The view was expressed that such interference is difficult to observe and is more often indirect than direct; that is, it more often happens that special emoluments and remunerative occa-

sional jobs improve the economic status of teachers and research workers whose views coincide with those of the more powerful economic agencies than that such men are bribed to substitute propaganda for scientific teaching or are removed by the pressure of such agencies upon the authorities governing the employment of college faculties.

Specialized Pacific Studies.

With regard to the contribution of institutions of learning to international understanding in the Pacific, special mention was made of the handicap suffered by students of Oriental history, languages, and civilizations in Western universities and colleges because of the traditional rootage of these institutions in Western culture. The American Council, more particularly, had been active in recent years to have some of these disproportions corrected. Thus it was reported that the Association of American Colleges had recently adopted a resolution recommending that units of Chinese and Japanese be included among the elective language stipulations in entrance requirements. It was also reported that the California State Board of Education, in co-operation with the state university, had given studies of Pacific subjects equal status with those of European history in the examination requirements for admission and, therefore, in the curricula of high and preparatory schools.

On the larger question of the progress of international studies, the papers submitted to the conference by the British and American groups gave revealing information. S. H. Bailey summarizes the results of his inquiry by saying:

‘The value of the co-ordination of studies implied in the subject of International Relations is acknowledged unofficially by a considerable body of university opinion upon the condition that the aim is to give the student a better equipment for citizenship and to advance knowledge. There is universal agreement that propaganda must be sedulously avoided.

‘The scope of the subject should be clearly defined. The impression is strongly combated that the subject can be confined to the study of the rules of International Law, though International Law is recognized as one of the most important elements in the study. . . . The subject is held to be especially suitable for post-graduate work by students who have already had a grounding in one or more of the disciplines of History, Law, and Economics. For registered students, of all faculties, the suggestion has been made that a weekly sessional course on current events could be given with profit in each university.’¹

The American Council, in a report on its educational activities laid before the conference, takes the view that, so far as the Pacific region is

¹ *Op. cit.*, pp. 29, 30.

concerned, the main need in higher education in the United States is for more opportunities for language study, and for more consideration of Pacific materials in courses offering world surveys in any subject field. There is more need for giving a recognized place to the history and achievements of the Pacific peoples in courses ranging all the way from anthropology to agriculture and from metaphysics to music than to have new courses introduced dealing specifically with the Far East or any other part of the Pacific area. At the same time, it reports a wider recognition of the need for specialized scholarship, and larger efforts to make good past failures to extend American research to Pacific subjects.¹

INFORMAL ADULT EDUCATION

The same report stresses the connexion between the advance of scholarship through institutions of learning and an awakened public interest:

'Lack of specialized scholarship is closely related to other failures of American education. . . . It cannot, in volume or value, rise very much above its source in an interested and at least moderately well-informed public opinion. If great institutions of learning have as yet made no provision for Oriental studies; if thousands of teachers are annually prepared to instruct American youth in history, geography, civics, and economics, without being made aware of the importance to Western civilization of the changes that are now taking place in the Orient; . . . the reason is that there has not so far been a widespread demand for anything better.'²

To what extent, asks the round-table syllabus, are economic maladjustments influenced by, or derived from, the lack of knowledge of actual conditions on the part of the public? This question, when analysed by the round tables, revealed itself as containing many elements of interest. For example, 'lack of knowledge' was seen to be no mere blank to be filled in by a sedulous distribution of information, much though this is needed. It consists also of a great deal of misinformation and prejudice that must be removed. It consists, further, of lack of ability to interpret and evaluate information when it is received. Present-day modes of learning about foreign affairs do not include facilities for incorporating them in an intelligent way with the previous stock of knowledge. One may hear a lecture over the radio or see a motion picture of foreign scenes without being spurred, with the aid of the offered material, to

¹ *The Educational Programme of the American Council of the Institute of Pacific Relations*, 1933. (Mimeographed, 30 pp.)

² *Ibid.* The report describes a variety of methods used to increase both general knowledge of Pacific affairs and the special knowledge of different interest groups whose concern, vocational or social, logically enlarged, embraces relevant subjects of international and specifically Pacific scope.

correct previous notions or the interpretations of previous experience. It was a newspaper man who cited Plato as insisting that geographical limitation makes a democracy workable. Occasions of learning must make it possible for citizens to see how information that comes to them affects their welfare, to take responsible attitudes towards situations that confront them in the light of the new information. He asked:

‘Can we find substitutes for the public gatherings of citizens at which such matters were discussed? Can the newspaper or radio take the place of the public square? Are our democracies based on an erroneous belief that they can function through the enlightened knowledge of all the citizens? Is it possible so to disseminate knowledge as to meet that fundamental condition; or can our system work only with governmental censorship and propaganda?’

The Samoan system of local government on the basis of public discussion was cited on another occasion as the ideal process of democracy. Recent studies have shown the effectiveness of methods too long held in contempt by the representatives of ‘higher’ civilizations. Yet, it is precisely the discussion groups fostered by various organizations in the Pacific countries that have contributed most to a real understanding of international affairs. Even those members of the round tables who were most insistent upon the value of corrective information, such as might be provided by literature in popular forms, by lectures and broadcasts, news services, and improved communications generally, agreed that the principal need to-day is to enhance the power of the people to absorb what they hear. ‘Without proper interpretation’, said an English member, ‘facts are unimportant.’ ‘The public itself must become the censor’, said a Canadian; ‘we have courses in salesmanship; we should also have courses in resistance to salesmanship—that is, to every kind of propaganda.’ She was able to add that in the teaching of civics her country was attempting to provide for discriminative reading of newspapers. The system of discussion groups created in connexion with the British broadcasting system also was mentioned as an important step in the same direction.

Censorship and propaganda, so far from protecting the people against distortion of facts, were shown to stand in the way of a training in discrimination which would make misinformation innocuous. To get the truth about Russia or about Manchuria from every angle is the only safeguard of the state against changes of public opinion so moved by prejudice as seriously to hamper the policies and actions of the Government.

‘The true safeguard against waves of national passion, leading to international conflict’, to quote the summary report of the educational round tables, ‘is to be found in the existence of groups of people who will set them-

selves to urge the world point of view upon the public and so correct the provincial point of view and the inevitable distortion of every system of national education. This would enable the nation to stand up against attempts to rush it into madness, and produce "an imperviousness to propaganda with a tortoiseshell back"—a healthy spirit of scepticism and iconoclasm.'

But not alone the international, the national interest also requires information free from felt didacticism, information in many forms adapted to the different interests and degrees of knowledge, if it is to lead to intelligent support of national policies. Unwise policies are often forced upon governments by a public opinion that has not undergone the discipline of unimpassioned discussion. Thus a Chinese member spoke of the embarrassment of his own government by public demands that unnecessarily deepened the conflict with Japan;¹ and the high tariff of the United States was cited as the combined effect of pressure from self-interested groups and a public opinion formed by emotional appeals ungrounded in economic fact. An English member drew attention to the fact that the conference itself, in its membership, illustrated the difficulty of getting a sufficiently representative view of any controversial question. Since it is impossible to have every attitude represented, the only possibility of getting accurate understanding is to have people trained to discern truth from falsehood, to reason as well as to read.

'Brain Trusts' and their Danger.

It was precisely this demand, however, which, at another round table, was described as Utopian. Public affairs are too intricate in the modern world, one speaker declared, to permit their guidance by public opinion. He proposed a considerable enlargement of the function of government-appointed commissions to assemble the facts about a given situation and to recommend policies. Such bodies should be appointed for long enough periods—perhaps for life—to make them entirely independent of outside pressures and thus enjoy the same confidence as is enjoyed by the supreme court in most nations.

The underlying principle of this proposal was attacked from many angles. It was shown that public commissions have been found helpful precisely to the extent to which they are made up of persons competent to study *specific* questions, that is for limited periods and with limited scope. The difficulty was to make the findings of such a commission

¹ Discussion of the anti-Japanese boycott in China revealed that it is often difficult to distinguish between spontaneous popular pressure upon a government and its artificial stimulation as a means of national policy. This moot question is to be further examined in connexion with the Institute's comparative study of boycotts under the direction of Kenzo Takayanagi, of the Japan Council, with the co-operation of the Chinese, British, and American Councils of the Institute.

acceptable to an electorate swayed by prejudice, and even to the Government that had appointed it. If charged only with ascertaining facts, the government commission often finds its report disregarded, since governments and parties are not ruled by facts alone. Another objection was that commissions, made up of persons of established reputation, often are ultra-conservative and even unaware of relevant recent developments and current ideas in regard to the matters in hand. Then, often the ascertainable facts are less important than probabilities and approximations; and as soon as they entered the field of speculation, the members of such a commission would go outside the particular competency for which they had been selected. An example was given from recent Japanese experience in which some members of a large Commission for the Study of Food and Population after its dissolution decided to form a continuing committee for further study and public information. It was stated that the willingness of these members to take part in informal public education after the task of fact-finding for which they had been appointed was completed had been a material factor in influencing popular opinion.

The chief difficulty in making effective the reports of public commissions was seen, however, to lie in the low state of general knowledge and ability to interpret the findings on the part of the people. Testimony from Canada, the United States, and Australia showed a state of general confusion about elementary economic facts and principles, and especially the recognized discrepancies between principles of public welfare taught in the schools and the actual practices of business and legislatures. The comment was made, further, that expositions of large economic movements rarely are in familiar terms, so that the average citizen cannot easily decide between conflicting policies even when all the available facts are laid before him. International conflict often arises from supposed differences in economic interest for which there is no real basis in fact, because the average man is more suspicious of information that comes to him from foreign sources or from objective studies than of information that emanates from groups which he believes to be animated with concern for his welfare. That this handicap to the functioning of a democratic order of society can be overcome was the view taken by a member who described the remarkable vitality which adult education in Denmark had given to popular participation in the formation of economic policies.

Libraries and Travel.

Among the instruments of informal adult education, other than those already mentioned—i.e. radio, moving picture, press, study groups, &c.

—two others were commented upon: public libraries and travel. As regards the former, the Dutch East Indies seemed to stand out with an unusually complete provision for interpreting to the natives their own historical culture and also contributions of European and Asiatic literature. The 2,600 public libraries of the country, it was said, incidentally have the effect of helping to adapt the native languages to modern needs. From the United States, an active co-operation of public libraries was reported in efforts to stimulate interest in Pacific peoples and questions.

In regard to travel, the testimony offered was similar to that presented two years earlier at Shanghai. With the timidity of official organs of education to enlighten the public on facts concerning the Soviet Union, lectures by returned travellers on that country, it was said, had supplied a good deal of material for popular discussion which otherwise would have been even further removed from a basis in actualities. The Hawaii group, it was reported, was considering plans for bringing more fully into use the territory's facilities for acquainting both citizens and visitors with the rich cultures of the Pacific.

The time given up by the round tables to the last question of the syllabus, concerning desirable further studies of education, public opinion, and cultural relations in the Pacific area, produced a variety of suggestions for both the International Programme Committee and the International Research Committee, and helped to implement the discussions of a committee appointed by the Pacific Council to advise on the extension of the Institute's own educational activities.¹

¹ See Preface, p. xi.

DOCUMENTS

DOCUMENT I

THE CONTROL OF INDUSTRY IN JAPAN

Prepared by the Staff of

TOKYO INSTITUTE OF POLITICAL AND ECONOMIC RESEARCH
CONCENTRATION OF CAPITAL SINCE THE WORLD WAR AND POST-
WAR DEPRESSION

JAPAN, being an industrially backward country, had to introduce the capitalistic system of production within a short period of time after the Meiji Restoration in order to catch up with the advanced countries. The consequence is that even to-day the feudalistic elements strongly survive within her economic structure side by side with the capitalistic; the present state of agriculture and of the small and domestic industries and trades eloquently bespeaks this. In so far as the capitalistic system is concerned, however, Japan may be said to have already attained an eminent height of development, for she has well developed joint-stock organizations, monopolistic forms of cartels and trusts, and, above all, a powerful oligarchy of financial capital such as is found nowhere else in the world. The concentration of capital first became apparent during the war, and made rapid progress in the course of post-war depression.

We find a good example of the concentration of capital in the general tendency of development of joint stock organization, in which the bigger companies (with a capital of more than 5,000,000 yen) have been annually growing both in their relative and absolute amount of capital as compared with the smaller ones. Many new companies were established, and the capital of the older ones was increased during the War boom; but, when the post-war depression compelled many of them to wind up their affairs, this reshuffling helped the bigger and more powerful companies to expand, absorbing the capital of the smaller ones. Moreover, the shares are mostly in the hands of a small number of large financial plutocrats.

Financial Plutocrats.

The capitalistic enterprises in Japan, small as they are from an international standard, have tended to give rise to a small number of powerful financial capitalists. These capitalists, or *Zaibatsu* as they are called, may roughly be classified into two groups: merchant magnates since the days of the Shogunate régime of the Tokugawas, such as Mitsui, Sumitomo, Konoike, Kawasaki; and financial magnates newly rising since

the Meiji Restoration, such as Mitsubishi (Iwasaki family), Yasuda, Okura, Asano, Furukawa, &c.

Since the War these wealthy families have formed their respective family companies by combining various industries which are mainly owned by them, thus contributing to the integration of enterprises and concentration of capital. The financial panic of 1920 caused the downfall of some of these financial plutocrats (such as the Matsukatas and Suzukis); but this only proved a good opportunity for the surviving ones to strengthen their grip on the finance and industry of the country.

Among the plutocrats the biggest ones are Mitsui and Mitsubishi, and the others are Sumitomo, Yasuda, Okura, Furukawa, Asano, Shibusawa, Konoike, &c. The extent to which they 'govern' Japan both financially and industrially is quite amazing.

In the financial field, we find that Mitsui, Mitsubishi, and Sumitomo, the Big Three in Japan's financial world, hold 22.65 per cent., and the Big Eight, which comprise besides the above three Yasuda, Shibusawa, Kawasaki, Yamaguchi, and Konoike, hold 52.67 per cent. of the financial capital in the whole country. Bank deposits and bank loans have tended, year after year, to become concentrated in the so-called Big Five in the banking business—the Mitsui, Mitsubishi, Daiichi (Shibusawa), Yasuda, and Sumitomo Banks—and at the end of June 1929 the Big Five held 38.28 per cent. of the total bank deposits, 29.56 per cent. of the total loans, and 43.97 per cent. of the total security investments of the whole country.

Next, as to the industrial field, the financial plutocrats, who had hitherto had their interests more or less in various branches of industry, have attempted, and succeeded in securing, a firmer grip on industry since the world economic depression started. How that depression helped them in this direction we have already seen. Naturally some gained more power than others; what is most noteworthy is the ascendancy of the financial capitalist as compared with the industrial capitalists. In face of the advance of the financial capitalists into the field of industry, by dint of their own capital as well as of other people's capital which they gather through their own banking enterprises, the industrial capitalists, who have few or no such facilities, have gradually had their power of industrial control reduced. To cite an instance or two, Okura, Asano, and other industrial capitalists have gradually been losing their power; the Furukawas had to give up their banking business, which in 1932 was merged in the Daiichi Bank.

Developments of Cartels and Trusts.

The industries of Japan, which underwent extraordinary expansion

and development during and after the War, have found it impossible, because of the economic depression which started in 1920, to maintain an enlarged business scale. What appeared as a natural process of development was the growth of cartels and trusts.

Since the Great War the Japanese industries have developed to such a degree that they can take the initiative in the control of industry, or adapt themselves to industrial control by the Government. During the decade from 1919 to 1929 the industrialists were active in creating cartels or trusts among themselves. However, the industrialists at that time were not so well organized as to be able successfully to carry out their plan for an industrial merger. To achieve this aim effective political pressure was needed. And this need for co-operation on the side of the Government was realized with the formation of the Hamaguchi Cabinet (1929). Since the Government adopted a policy for the rationalization of industry, a remarkable growth of cartels and trusts has been witnessed.

ESTABLISHMENT OF THE BUREAU FOR RATIONALIZATION OF INDUSTRY AND ITS ACTIVITIES

Establishment of the Bureau for Rationalization of Industry.

Many industries in Japan, which had undergone extraordinary development and expansion during the War boom, contained within themselves certain dangerous factors—loose management, uneconomical equipment, &c.—which later necessitated reorganization or rationalization. A movement towards rationalization first made its appearance in 1920, when the reaction to the boom began to set in. It was, however, only since the financial panic of 1927 that the desire for rationalization was expressed by the capitalists themselves, which showed that the industrial conditions in Japan had reached such a pass at that time that no temporizing relief measures were sufficient. The development of rationalization in advanced countries, such as the United States of America and Germany, too, gave a strong stimulus to Japan. The Japan Economic Federation, which is qualified to send delegates to the International Congress of Chambers of Commerce, issued, in March 1928, 'Proposals for the Rectification of Present-Day Evils', in which the body gave voice to its desire for rationalization. The Hamaguchi Ministry, which in July 1929 came into power with a programme of deflation policies, came to recognize fully the importance of rationalization as a means of relieving the imminent danger of the capitalistic system in the midst of the unmistakable and rapid economic depression after 1929.

The Government asked the Council for Industry and Commerce for

the proper industrial policy to be adopted and obtained the following proposals: (1) transference to private management and rearrangement of government undertakings; (2) encouragement of the formation of trusts and cartels among enterprises; (3) promotion of efficiency in enterprises, &c. Further, in January 1930, the Government established temporary machinery to 'study and inquire into all important matters relating to the rationalization of industry and other measures to promote industry in general'. It was in accordance with the proposal of this body that the Bureau for Rationalization of Industry was finally set up in June 1930. The Minister of Commerce and Industry is at the head of the Bureau, and a number of advisers were appointed by the Government from among 'those rich in both experience and learning'. It is to be noted, however, that those advisers were entirely representatives of capitalistic interests, no one representing the labourers and the consumers being included. The Bureau, as it stands to-day, has the construction tabulated on p. 258.

Activities of the Bureau for Rationalization of Industry.

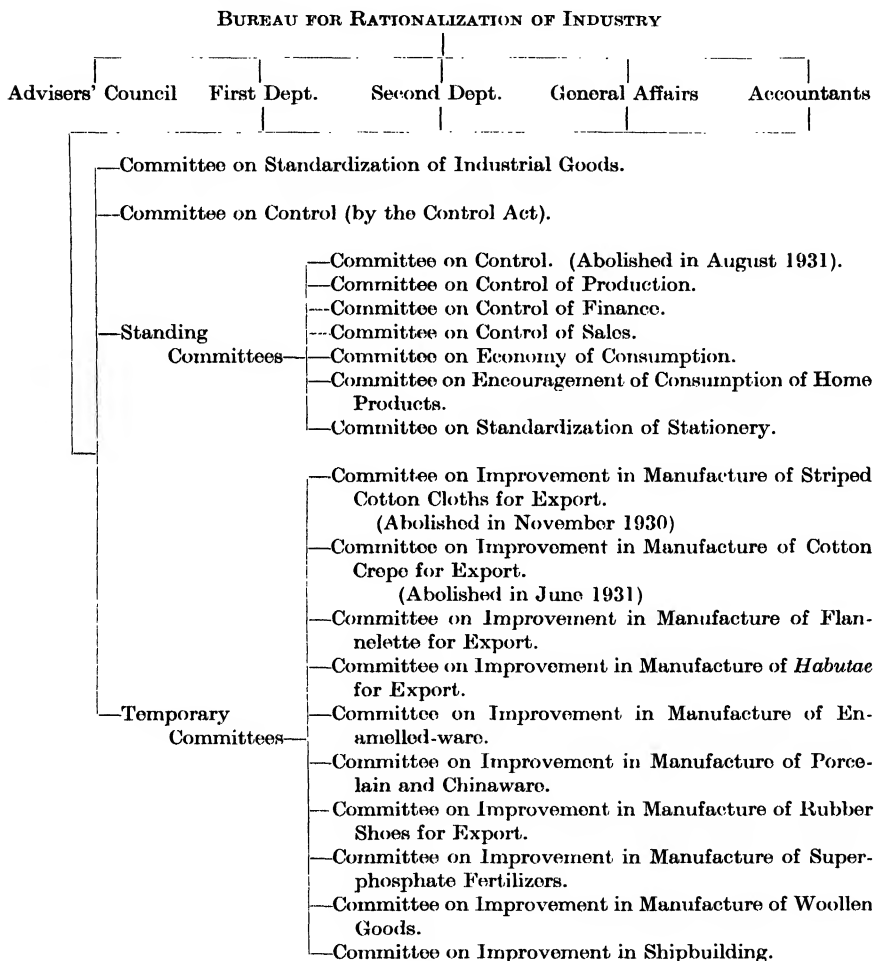
The Committee on Standardization of Industrial Goods succeeded, as far back as 1924, in getting the metric system adopted throughout the country; besides, it succeeded in standardizing 162 categories of industrial products during the period between 1921 when it was established and 1931, although it is undeniable that, since its decision has no legally binding power, it has had little practical influence outside the governmental offices. Among the Standing Committees, the Committee on Control has achieved most remarkable results: the 'Resolution regarding the control of enterprises', which was prepared by this committee, later gave birth to the 'Principal Industries Control Act'.

The Committee on Control of Production has investigated about thirty items, such as economy of fuel, mutual exchange of operatives, mutual information among producers, test of suitability, &c., and the propagation of those items which it has been found advisable to popularize the committee entrusted to the Society of Technical Industry which was established in April 1931, at the request of the Government, by uniting the factory owners in the different prefectures.

The Committee on Control of Finance, which is entrusted with the establishment of a rational basis for the control of finance, method of control, &c., has published standard formulae for the balance-sheet, inventory, profit and loss account, &c., and submitted this to various industrial and scholastic bodies for approval and adoption.

The Committee on Control of Sales has made inquiries and reported already on the enactment of a special law providing for the control of

unjust competition ; revision of the Act for Industrial Union of Staple Exports and the Export Union Act ; and the enactment of a Commercial Union Act. The committee has also reported on affairs relating to the control of business management, simplification of merchandise, standardization of contracts, &c.



The Committee on Encouragement of Consumption of Home Products has tried to attain its end by lectures, literature, sample exhibitions, comparison of home products with imported articles, &c. Although it is impossible to gauge the results of the work done by the committee, those imports which can be substituted by home products have been considerably decreasing annually. This fact is particularly notice-

able in such goods as woollen goods, carpets, bicycle chains, butter, pianos.

As regards the Temporary Committees dealing separately with various products, they did not achieve much, except in the field of the small industries, such as the striped-drill industry which we shall mention later (p. 265). It is true that some governmental control has been attained in the large-scale industries since the enforcement of the Principal Industries Control Act, but the results have been far from perfect.

Results of Rationalization in General.

Thus, the results of the various activities of the Bureau for Rationalization of Industry have not been very remarkable except for the enactment of the Principal Industries Control Act and two or three other things. The reasons for this unsatisfactory state of affairs may be that:

1. From the beginning no active co-ordination has existed between the rationalization of production, that of distribution, and that of consumption; and attempts at rationalization have all ended in a rationalization primarily in the interest of the capitalists. The efficiency of the workers has been raised considerably, it is true, but the number of unemployed, too, has been increased, which shows that the rationalization after all has been simply an intensification of labour. This explains and justifies the fact that the labour unions and other proletarian organizations opposed all attempts at rationalization from the outset. On the other hand, the increasing formation of cartels and trusts actually raised the prices of industrial products, thus leading to lack of purchasing power among general consumers, especially farmers;
2. the rationalization movement did not have the support of the influential business men's associations, although it is true that the Japan Chamber of Commerce and Industry co-operated therein;
3. the small merchants and industrialists are not organized and are widely dispersed, while the large concerns are owned by capitalist rivals, both thus standing in the way of any effective rationalization;
4. the rationalization movement had little understanding of, or liaison with, the financial machinery; and
5. the Bureau had very little funds at its disposal (it had an appropriation only of 201,000 yen for the fiscal year of 1931).

All these factors have been responsible for the unsatisfactory progress of the movement for industrial rationalization in Japan.

CONTROL OF PRINCIPAL INDUSTRIES

Principal Industries Control Act.

The principal industries in Japan had hitherto been practising a voluntary control of production or sale (production-limitation and price-agreement) by forming cartels among themselves, but the economic depression made competition with each other so intense that it became impossible to check it merely by means of any such voluntary agreements as before. This tendency became more marked after the gold embargo of 1930. The capitalists directly involved in the principal industries then abandoned their traditional attitude of opposition to government interference and tried to replace voluntary control through cartels by governmental control through legislation. The result was the 'Principal Industries Control Act' drafted by the Bureau for Rationalization of Industry. The Act was carried through the Diet in March 1931 without much opposition, and put into operation in August of the same year. The aim of the law, according to the explanation offered by the Bureau, was as follows:

'The control of industry at which this law aims means the removal of the danger of instability of industry arising from reckless competition, and the production and sale of good articles at low prices, by eliminating the wastefulness involved in such competition. To analyse the Act more fully, it has two objectives: it promises Government assistance under certain conditions to producers' voluntary control of industry in order to improve the state of production in unregulated industries; and at the same time it undertakes to supervise the producers' voluntary control lest there should be any unfair agreements likely to be injurious to the less powerful industries. It is necessary, on the one hand, to provide the industry with the basis of stabilization on the existing order by putting to an end the unrestricted competition and chaotic state of production, and on the other, to superintend and control, from the standpoint of public welfare, any monopolistic tyranny which may be brought into play in the name of "industrial control".'¹

As is evident in the above explanation, the law intends to promote the formation of cartels and the control of industry through cartels. The details of the industrial control, as manipulated by this law, are as follows: when, in any particular industry which is designated as a 'principal industry' by the Minister of Commerce and Industry (through the Committee on Control), a cartel agreement—or agreement on the control of production or sale in accordance with the Regulation—has been concluded by more than one-half of the firms belonging to the industry, the said cartel is put under the obligation to report on the fol-

¹ *Commentaries on the Principal Industries Control Act*, issued by the Bureau for Rationalization of Industry, April 1932.

lowing items: (1) limitation of production, (2) demarcation of production, (3) apportionment of orders, (4) sale-price, (5) channel of sale, (6) quantity to be sold, (7) joint sale, &c. (Article I).

When 'more than two-thirds of the members of such a cartel demand it', the State may enforce the whole or part of the agreement upon the members or non-members thereof ('through the deliberations of the Committee on Control'), provided that such an enforcement 'is deemed necessary for the protection of the industries concerned or the sound progress of the national economy' (Article II). In these cases of obligation of 'report' and 'enforcement', provided for in Articles I and II respectively, the Minister in charge may order an investigation and publication of the state of business management (Article IV). The State may order the 'rescission or change of articles' of a cartel agreement, 'through the deliberations of the Committee on Industrial Control', provided that the agreement is considered 'contrary to public welfare' or 'injurious to the interest of the industries concerned or other industries closely related to them' (Article III). Violation of these regulations involves fines ranging from 100 to 1,000 yen (Articles VI-VIII). The term of the validity of the law is five years from the date of promulgation (Supplementary Rules).

The most important point in connexion with this law is the criterion by which to enforce a cartel agreement or to label a cartel agreement as contrary to the interest of the public. No practical or technical criterion is given in the law itself, and it is hoped that a precedent may grow in due course. Under these circumstances, it is clear that the organization of the Committee on Industrial Control which is directly concerned with the enforcement of the law is all-important. It is provided that the Prime Minister shall nominate as members of the committee not more than eighteen persons who are 'learned and well experienced or who are officials of the governmental services concerned'. The actual members nominated in September 1932 were, besides government officials, mostly capitalists or those representing the interests of capital, the exceptions being one economist and two representatives of the press. None on the side of the consumer or of labour was included. This fact clearly tells in what direction the committee has been moving; and there is certain justification in the critical contention that the Principal Industries Control Act is nothing more or less than a law calculated to instigate the formation of cartels without serving any social purpose.

Industries controlled by the Act.

This particular jurisdiction, as was expected, was received rather favourably by the capitalists. The number of the industries which have

so far been subjected to the Act is twenty-two, of which more than one-half were those which applied for subjection themselves. The others which did not so apply were selected from those branches of industry which already had formed cartels in their respective fields (such as cotton spinning, silk reeling, artificial silk, foreign-style paper, sulphate of iron, &c.), on condition that they were bound only by Article I of the Act (viz. by the obligation of report). Thus their hostile feelings were mitigated. The branches of industry thus brought under this law are: cotton spinning; silk reeling; artificial silk; foreign paper; carbide; oxygen; hardened oils; cement; flour milling; pig iron (only those using high furnace and having an average monthly capacity of 3,000 metric tons and up); alloys; steel bars; angle-bar steel; copper and brass sheets; carbon disulphide; refined sugar; cotton goods; gasolene; sulphuric acid; bleaching powder.

Of these branches of industry, flour milling, copper and brass plates, hardened oils, sulphuric acid, carbide, &c., had not been so organized as to form a cartel in each branch; but they have been brought under the control of the law by the wishes of their leaders to attain the merger with the help of the State. In such industries as cement, oxygen, bleaching powder, &c., there had been efficient cartels, but they have come under the Act because they wanted further to consolidate their agreements. In cotton spinning and several other more important industries, they had already formed strong cartels and did not want any State interference; but the government authorities, believing that their exclusion would hurt the prestige of the Act, finally succeeded in bringing them in on that mitigating term to which we have already referred.

There have been many minor industries which were excluded, contrary to their own wishes, simply because their size was too small and their number too large for effective control. Such were ice manufacture, Japanese paper, lime kilns, crab-meat canning, &c. The coal industry was not included, not only because the large-scale firms were closely interwoven with the big capitalists, but also because there were still a large number of small-scale ones. As for the copper industry, it was excluded because it belongs to an international cartel.

Recent Trends of the Principal Industries Control Act.

As we have already seen, the main purport of the Act was to encourage the formation or strengthening of cartels, namely, to extend the rationalization of industrial organizations. Sufficient room, however, is given to the Act for preventing monopolistic industries from raising prices to a level which is injurious to the interests of the public in general, although this may often be impeded by opposition on the part of capital.

In the second half of 1932, that is, about one year after the promulgation of the law, the general level of prices in Japan began to rise through the low foreign exchange and the high tariffs, all natural consequences of the gold embargo. The rise of prices was especially marked in the products of controlled industries, such as sugar, steel, &c., and eloquently pointed to the evils of monopolistic enterprise. Faced with this situation, there arose the question of whether or not to invoke Article III of the Control Act, but the Government hesitated to take action because of the uncertainty as to how long the high price level would last. Instead of revising the Article so as to extend its application for the protection of the consumer, the Government introduced in the by-law the following items which were meant to check any big rise in prices (enforced in March 1933):

1. The report to the Government on the amount of production or sale by the controlled industries shall in the future be submitted monthly, instead of annually as hitherto. The aggregate of the stock in hand at the end of every month shall also be reported at the same time, such reports to be handed in not later than the 20th day of the following month;
2. the inventory, balance-sheet, business report, profit-and-loss account and the statement showing the disposal of the profit, &c., shall be submitted to the Government at the end of each fiscal year without delay.

By these two newly introduced methods more data have become accessible to the authorities than hitherto upon which to base their judgement as to the necessity of control. By means of such data the authorities will be able to establish a standard for the control of any such monopolistic industries as may attempt to raise prices contrary to the public interest. The Principal Industries Control Act is now applied practically to all of the principal industries in Japan. Although the Act is originally meant to be valid only for five years, being an experimental enactment, it would be safe to predict that, judging by the recent trends in its application, it will develop into a permanent law.

CONTROL OF SMALL INDUSTRIES AND TRADES

Legislation for Small Industries and Trades.

One of the important causes which have led to the distress from which small industries and trades in Japan are suffering, in spite of their undisputed importance as factors to be reckoned with in Japan's industrial activities, is the fact that they had hitherto been utterly unorganized and uncontrolled. There were, of course, before the War some laws and regulations which might be applied for their control, such as the Act for

Trade Association of Staple Products, the Act for Industrial Union of Staple Exports, the Export Union Act, &c. Each one of these laws, however, had only a loose hold on the manufacturers and traders, the latter two Acts especially being much too inadequate for the purpose of controlling the small industries and trades. The Bureau for Rationalization of Industry attempted a revision of the second and third of these Acts and the enactment of a Commercial Union Law; the revision was carried out in April 1931, and the law was put into operation in September 1932.

The Act for Industrial Union of Staple Exports was renamed 'Industrial Union Act', and the following changes were made: (1) its application has been extended to the manufacturing industry in general, instead of the manufacturing industries of staple exports alone; (2) the industrial unions shall function as financial agencies for the small industries and trades by receiving savings as deposits and granting loans, in addition to the inspection and control of the manufactured goods, supervision of business management, joint equipment, purchase and sale, &c.; (3) the superintendence by the Ministry concerned shall be added to the control by the unions themselves; (4) the Ministry can order non-members of the unions to obey the control and restrictions by the unions for the purpose of removing, or even preventing, the evils involved in business management; (5) the right of resolution of the members of the unions was revised and extended; (6) a federation system of the unions was recognized so that a uniform control throughout the country might be possible; (7) manufacturers of staple exports should either refuse to join or withdraw from the trade associations of staple goods.

The Export Union Act was revised concomitantly with the revision of the Industrial Union Act, and the extent of the activity of the export unions has been widened so that they can now export goods on consignment, export goods which they purchase from other people, grant industrial loans to their members, guarantee their members' liabilities, &c. Both of these laws, however, have a great common defect in that in each case the traders are left free to choose whether they will join the unions or not, a factor which will have a serious bearing on the effectiveness of control, although as far as the Industrial Union Act is concerned another series of revisions was made in March 1933, by which the establishment of the Central Council of the Industrial Unions was recognized with a view to encouraging the development and co-operation of the unions or their federations, and more severe punishment was provided for.

The Commercial Union Act, which was enacted in September 1932, aims at the relief and control of the small trades. It provides for common facilities for the conduct of business, such as purchase, storing, and

transportation of those articles which the members deal with; and for the control of the conduct of business of the members. In so far as the effect of control is concerned, this law is about the same as the other two mentioned above.

Control of Special Industries.

Side by side with the measures of control in general, control of specific industries has been exercised by the Special Committees of the Bureau for Rationalization of Industry and by the industries themselves. With reference to the Special Committees we may mention *Striped Drill*. The programme of control and its details were decided on in the summer of 1930, and put into practice in November of the same year: (a) the control of production and joint sale shall be practised; (b) a joint sale-office may be established but it shall for the time being mediate in sale only; (c) the prohibition of sale or fixing of a minimum price shall be practised, if necessary; (d) a quota of production shall be fixed, as a control of production, for each productive area on the basis of the actual production of the preceding eighteen months, and a contribution of 2 sen per *tan* (12 yards) shall be collected as expenses towards control, and, in case any producers put out more than their quotas, they shall pay additional expenses; (e) the joint sale-offices shall nominate specific dealers, and no transactions shall be done with any other dealers; (f) the Japan Federation of Industrial Unions of Cotton Textiles for Exportation shall be made the machinery to carry out the control; and, in order to ensure its activity, the inspection of Striped Drill shall be exclusively conducted by the Federation.

Cotton Crepe for Exportation. Control similar to that for Striped Drill was enacted in January 1931 and has since been in force.

Flannelette for Exportation. The system of production quotas and joint-sale has been applied since June 1931 on finished goods alone. As to the supply of raw materials, a special contract has been concluded with the seven big spinning companies.

Enamelled ware. The system of production-quotas and the control of supply and demand were applied in July 1931 on goods to be exported from the Kwansai district.

China and Porcelain and Habutae (plain silk) for exportation. The fixing of production-demarcation, control of demand and supply, joint sale, price agreement, &c., were applied to these goods in August 1931 for the former and in October 1931 for the latter. In so far as *Habutae* is concerned, the joint purchase of its raw materials and the standardization of its qualities have been provided for.

With reference to self-control by specific industries, stockings to be

exported to England, cotton sarong, hemp braids for exportation, &c., are controlled by the respective federations of industrial unions.

Unions and Associations in Small Industries and Trades.

The number of the trade associations under the Act for Trade Associations of Staple Products has not increased since the conclusion of the Great War (831 in 1931). The number of the industrial unions under the Industrial Union Act was 22, and that of their federations was 1, at the end of 1926, but had risen to 137 and 13 respectively by the end of 1931. Table I shows the Government subsidies for them.

TABLE I
GOVERNMENT SUBSIDIES FOR INDUSTRIAL UNIONS AND
EXPORT UNIONS

	<i>Fiscal Year</i>	<i>Number of Unions</i>	<i>Number of Members</i>	<i>Number of Unions Subsidized</i>	<i>Amount of Subsidies (yen)</i>
Industrial Unions	1927	61	2,678	15	299,595
	1928	78	4,438	12	234,450
	1929	91	5,273	13	220,380
	1930	121	6,884	26	382,670
	1931	144	10,109	15	128,250
Exports Unions	1931	27	..	7	33,250

The Department of Commerce and Industry and the industrialists and traders themselves made efforts to establish a Central Council of the Industrial Unions and to bring about an enactment relating to it; and further to establish a central bank for Industrial Unions as a means of eliminating financial difficulties confronting the small industrialists and traders. The former was achieved in March 1933.

The number of unions under the Export Union Act increased from three to twenty-two between the end of 1926 and the end of 1931, but the progress of the movement cannot be said to be very remarkable. The number of those under the Commercial Union Act was only six on February 25, 1933, six months after the enactment of the Law.

MOVEMENT FOR CONTROL IN AGRICULTURE

Management in Agriculture in General.

Agriculture in Japan, viewed from the angle of industrial organization which is a necessary condition of control, is still in the pre-capitalistic or semi-capitalistic stage of development. In respect of the forms of ownership, for instance, the arable area is divided into very small lots for

a large number of owners, and the scale of management, too, is extremely small. The so-called ultra-small farmers [managing less than 5 *tambu* (0.245 acre)] take up 34.7 per cent., while those managing up to 2 *chobu* (20 *tambu*) constitute 94.4 per cent., of the whole number of farmers in Japan. Naturally, therefore, the number of agricultural companies and the amount of their paid-up capital, although both have increased in absolute number or amount since the conclusion of the War, form a very small proportion of the total number of companies or the total amount of capital in Japan.

TABLE II
NUMBER OF FARMING FAMILIES LISTED ACCORDING TO SIZE
OF AREA OF CULTIVATION AND THE APPORTIONMENT
OF ARABLE LAND THERETO

(At the end of 1930)

<i>Arable Land per Family</i>	<i>Actual Number</i>		<i>Percentage</i>	
	<i>Number of Families (in thousand families)</i>	<i>Areas Cultivated (in thousand chobu)</i>	<i>Number of Families %</i>	<i>Areas Cultivated %</i>
I. Less than 5 <i>tambu</i>	1,939	485	34.7	8.2
II. 5 <i>tambu</i> to 1 <i>chobu</i>	1,916	1,437	34.2	24.3
III. 1 <i>chobu</i> to 2 <i>chobu</i>	1,227	1,841	21.9	31.1
IV. 2 <i>chobu</i> to 3 <i>chobu</i>	317	793	5.6	13.4
V. 3 <i>chobu</i> to 5 <i>chobu</i>	129	516	2.3	8.7
VI. More than 5 <i>chobu</i>	71	844	1.3	14.3
Total . . .	5,599	5,916	100.0	100.0

I = 0.25 *chobu* × number of families. II = 0.75 *chobu* × number of families.
III = 1.5 *chobu* × number of families. IV = 2.5 *chobu* × number of families.
V = 4 *chobu* × number of families. VI = total arable area—(I, II, III, IV, V).

At the end of 1931 the agricultural companies numbered only one to 5,500 farming families.

The agricultural population amounts to roughly one-half of the whole population of Japan. (It was 51.6 per cent., according to the national census conducted in 1910, and 48.4 per cent. in the census in 1930.) Practically the whole of the agricultural population carry on family or domestic farming; roughly 70 per cent. are tenant farmers or tenant-proprietor farmers. Under such circumstances, the introduction of the large-scale method of production is even to-day very remote indeed. The number of motor-power machines used for agricultural production in Japan Proper, including oil-, electric-, gas-, and steam-engines, reached

92,266, with 261,609 horse-power, besides which there were only 47,021 water-driven and 22,556 animal-driven machines.

Changes in Agricultural Policy.

In spite of the backward state of agricultural management in general, as mentioned above, agriculture in Japan, thanks to the increasing demand due to the progress of capitalistic industrialization in other branches of industry, had continually been progressing over a long period of time before the War, during which the government policy for agriculture was chiefly concentrated on the improvement of the technical side of production, such as the amount of production, quality of crops, &c. Especially with the arrival of the universal boom at the time of the War, much money was spent for the improvement of equipment for agricultural production, thus increasing the amount of fixed capital invested in agriculture. The chief concern of the Government then was to solve the population-and-food problem from the national point of view rather than the problem of the living of the farming population. But the reaction came. The post-war economic depression which was destined to be 'chronic' caused an excess of agricultural supply and pushed down agricultural prices farther than industrial prices; both the Government and the farmers themselves thus came to realize the importance of the problem of price. The world panic of 1929, accompanied by world-wide agricultural depression, hit the Japanese farmers to an unprecedented extent. The burden of the agricultural debts is estimated to have been increased by five milliard yen, and agricultural credit has been entirely suspended. The Government, in consequence, has been driven to adopt a series of relief measures calculated to prevent a further fall in agricultural prices, supplement the purchasing power of the farmers, mitigate the farmers' debts, &c. It would not be too much to say that, for the first time at this juncture, the Government and the nation realized the necessity of state control of agriculture as a national policy for an important branch of industry. Even so, it is worth noting that underlying the policy of the Government is the unshaken idea of maintaining national self-sufficiency in agricultural production.

More recently we have noticed that there are two guiding principles in the government policy for agriculture: one is the relief of the farming population as a social class, and aims directly at helping it to get out of the depression; the other is the control of individual agricultural products as foodstuffs of the nation or as raw materials of the country's industry, and intends practically to check the importation of such products from abroad.

As an example of state control of individual agricultural products, we

may take the Tobacco Monopoly Act of 1896 which was chiefly based on financial considerations. The monopoly of tobacco was extended to the whole sphere of the tobacco industry in 1904. (By the way, salt in 1895 and camphor in 1903 were monopolized by the Government.) More important measures of control adopted by the Government are those relating to rice, cocoons, wheat, &c. With regard to rice, the Government enacted, shortly after the conclusion of the Great War, a series of Acts calculated chiefly to regulate its price, and has since revised it again and again.¹ As for silk cocoons, several laws have recently been enacted which aim at the maintenance of price or the control of production. The Bill providing for state control of silkworm eggs was passed by the House of Representatives in March 1933, although it was not accepted by the Upper House.

For the control of wheat, the Government in 1932 formulated, as part of its five-year industrial plan, a plan to increase production, according to which an increase in production of 3,000,000 *koku* (on an area of 180,000 *cho*) is to be achieved in five years, as a means of protection against agricultural depression as well as for the prevention of its importation (with an eye also to its military significance).

As relief measures for the agricultural population, the Government Department of Agriculture and Forestry laid down the 'Guiding Principles for the Plan of Economic Revival of the Farming and Fishing Population' in 1932. Their main objective was the improvement of the basic conditions of management in agriculture. Among others they stressed the importance of (1) readjustment of the distribution of land and rationalization in the use of land; (2) improvement of the financial machinery for agriculture; (3) rationalization in the use of labour; (4) improvement of the organization of agricultural management; (5) reduction of the cost of production and other costs of management; (6) improvement of the method of production and the control of production; (7) control of the sale of products; (8) control of the distribution of utensils for agricultural enterprises; (9) improvement of farmers' family budget; (10) facilities for prevention of diverse calamities, funds for mutual aid, savings against destruction of property, &c. All these plans are to be carried out by the local governments with farmers' co-operation, and may be said to be the beginning of the deliberate plan contemplated by the Japanese Government after taking into consideration the specific conditions of the farming population.

Co-operative Movement as a Means of Agricultural Control.

Considering that most farmers in Japan are still living a communal

¹ See Seiichi Tobata, *Control of the Price of Rice*, Japan Council, 1933.

life and that there still exist overwhelmingly large numbers of small and ultra-small farmers, the co-operative movement has a great significance and role in the control of agriculture in Japan. Among the agricultural bodies which may play a part in any attempt at the control of agriculture are the Agriculture Society (*Nokai*), trade associations, stock-breeding associations, sericultural associations, &c., but the most important are those under the Co-operative Society Act (enacted in 1900 and since revised). Among them are included co-operative credit societies, sellers', purchasers', and utilizers' co-operative societies. At the beginning, credit co-operation was predominant, but gradually other co-operatives were formed. The sellers' co-operative societies, for instance, passed the following stages in the course of their development: a first period in which they handled exclusively matters relating to standardization of qualities and agreement on the size of packing; a second period wherein they were devoted to the elimination of middlemen; a third period wherein they aimed at the control of seasonal fluctuations of price through an adjustment of supply and demand and storing of goods; and finally a fourth period wherein they were mostly occupied in fighting against the monopolistic profit-making of the industrial capitalists.

The Central Council of the Co-operative Societies, under the pressure brought to bear by the precipitation of agricultural depression and the ascendancy of the capitalistic system, has realized the necessity of 'awakening the small farmers and inducing them to participate in the co-operative movement in order to set up a self-sufficient economy' on the basis of co-operation, and decided in 1932 on a five-year plan calculated to encourage the formation of co-operative societies. By this plan the Central Council aims to extend the co-operative system to those districts where it is not yet developed, and so to contribute to the government policy of relieving the farming population. The plan has been in execution since August 1932.

The co-operative societies in Japan, however, have hitherto developed mainly among the middle and large farmers and hardly represented proletarian interests. Consequently, the National Farmers' Union (*Zenkoku Nomin Kumiai*), for instance, which is organized by those tenant farmers who have become class-conscious, looks upon these societies with hostile feelings, although the general trend is towards the expansion of the co-operative movement even among the tenant farmers. The number of consumers' co-operative societies in 1931 was 250, of which farmers' co-operative societies (affiliated with the National Farmers' Union) numbered only 78, with an aggregate membership of some 8,000.

DOCUMENT II

THE AGRARIAN PROBLEM OF CHINA

CHEN HAN-SENG

*Research Fellow of the National Research Institute of Social Sciences,
Academia Sinica, Nanking, and Fellow of the American Geographical Society.*

‘WHEN equality was altered, and the land passed into a few hands, great social and political upheavals took place. Chinese history shows that many dynasties fell because of this reason, alone or prominent among others.’ Thus Professor C. T. Dragoni of Italy spoke very impressively of the agrarian problem in China. He had come from the League of Nations, upon an invitation of the National Economic Council, to conduct a study of the present Chinese rural conditions. Early this spring, after travelling in the province of Hupeh, among several districts recently devastated by military operations, this expert observer reported with emphatic words as follows:

‘If the former owners or the new occupants of land are permitted to do as they please, to follow their old customs, it is probable that in a few years the old conditions will be completely restored. In many cases it is possible that new conditions, worse than the preceding ones, will assert themselves, because this state of affairs is favourable to the usurpation of land by the richer classes of the population. I am strongly of the opinion that this must be avoided by every possible means.’¹

POOR PEASANTS IN NEED OF MORE LAND

That the whole economic fabric of China is constructed on the back of the peasant is a fact probably known to many people. Too few, however, realize that an overwhelming majority, no less than 65 per cent., of the rural population in China is direfully in need of land. Economic students in China are apt to think of the peasant cultivating his own land as a synonym for the contented and economically well-to-do. Nothing is farther from the truth. In the river basins of Hwang Ho and Pei Ho, as in no other regions of China, such peasants predominate. Most of them, just as the poor peasants in other regions, have not enough land for their cultivation.

Unequal Distribution of Land Property.

Take, for instance, a district situated in the Pei Ho basin, and see how unequal is the land distribution among the peasants. About 70 per cent. of the peasants in Ting Hsien, Hopei Province, are cultivating

¹ C. T. Dragoni, *General Report on Some Lines of Agricultural Policies for China*, National Economic Council, Nanking, March 1933, p. 17.

their own land ; pure tenants occupy only about 5 per cent. Nevertheless, of the 14,617 rural families investigated, over 70 per cent. own less than 30 per cent. of the cultivated land ; and less than 3 per cent. of the families own nearly one-fifth of the land.

DISTRIBUTION OF LAND PROPERTY IN TING HSIEN¹

(134 villages, 1930-1)

<i>Size of Property</i>	<i>No. of Families</i>	<i>Per cent. of Families</i>	<i>No. of Mow Owned</i>	<i>Per cent. of Land</i>	<i>Average per Family</i>
Landless	1,725	11.8	..	..	..
Below 25 mow . . .	8,721	59.7	95,139	29.4	10.9
25-49.9 mow . . .	2,684	18.3	87,903	27.1	32.8
50-99.9 mow . . .	1,152	7.9	79,035	24.4	68.6
100-299.9 mow . . .	302	2.1	46,357	14.3	153.5
300 and above 300 mow . .	33	0.2	15,481	4.8	469.1
Total	14,617	100.0	323,915	100.0	22.2

Ting Hsien is one of the outstandingly rich districts of Hopei ; Paoting may be better considered as representative of the agrarian condition on the plain of this province. A rural survey of Paoting was carried out by the National Research Institute of Social Sciences, Academia Sinica, in co-operation with the Peiping Institute of Social Research. Ten representative villages were chosen for the purpose, and of the 1,565 rural families investigated 65 per cent. were found to be either landless or with insufficient land.

DISTRIBUTION OF LAND PROPERTY IN PAOTING²

(Landlords and peasants in 10 representative villages, 1930)

	<i>No. of Families</i>	<i>Per cent. of Families</i>	<i>No. of Mow Owned</i>	<i>Per cent. of Land</i>	<i>Average per Family</i>
Landlords	58	3.7	3,392	13.4	58.5
Rich peasants . . .	125	8.0	7,042	27.9	56.3
Middle peasants . . .	362	23.1	8,400	32.8	23.2
Poor and hired peasants . .	1,020	65.2	6,686	25.9	6.6
Total	1,565	100.0	25,520	100.0	16.3

¹ Franklin C. H. Lee, *Ting Hsien: A Social Survey*, Peiping, 1933, pp. 649, 663. Percentage of tenants, see p. 128.

² Statistics compiled by Chang Si-chan and Liu Hwei-pu. The terms 'landlord', 'rich peasant', 'poor peasant', &c., as used by the compilers, evidently do not exactly

The average number of mow per family in Ting Hsien is much larger than in Paoting.¹ Yet a vast majority of Ting Hsien families with less than 25 mow are poor peasants with less than 10 mow per family, while the poor and hired peasants of Paoting own on the average less than seven mow. 65.2 per cent. of Paoting families possess only 25.9 per cent. of the cultivated land. On the other hand, 11.7 per cent. of the rural families enjoy 41.3 per cent. of the land.

Little over 60 per cent. of the landlords dwelling in Paoting villages manage their land, though they do not cultivate, and occupy 2.36 per cent. of the village population. But these families, less than 3 per cent., are in possession of 10.57 per cent. of the land; they are managing it by employing poor peasants and hired peasants, who have little or no land themselves.²

Unlike the circumstances of Hopei Plain, landlords on the Yangtze delta, a region between Yangchow and Hangechow, are purely and simply rent collectors. Managing landlords are rather an exception. Here an extreme pattern of landlordism may be found in Pinghu, a district of Chekiang. The monopoly of landownership has gone so far that 3 per cent. of the population possess 80 per cent. of the land.

DISTRIBUTION OF LAND PROPERTY IN PINGHU³ (1929)

<i>Size of Property</i>	<i>No. of Families</i>	<i>No. of Mow Owned</i>	<i>Per cent. to Total Cultivable Land</i>
Small landlords (1-99.9 mow)	1,200	60,000	11.63
Middle landlords (100-999.9 mow)	380	149,000	28.89
Big landlords	66	204,000	39.56
Total	1,646	413,000	80.08

correspond with the meanings associated with them by readers familiar with European conditions of land holding. A 'landlord' here means an owner of land cultivated by others, who, however, may himself be a peasant and not by any means a rich man. Likewise, a 'rich peasant' in Chinese terminology may be a very poor peasant in comparison with a peasant termed 'rich' in the Balkans or in Spain. 'Hired peasants', again, seem to be labourers in the English sense, that is, men whose livelihood primarily depends on work for others though they may also cultivate a small piece of ground for themselves. THE EDITORS.

¹ Average per family in Ting Hsien is 36 per cent. larger than in Paoting.

² The hired peasants in Paoting, unlike most of the agricultural labourers in capitalistic nations, often maintain some little land in their families. Of the 203 hired peasant families investigated, 65 per cent. have some little land.

³ Statistics compiled by Chien Tsen-jui, based upon Chang Tsun-po's report of an Agricultural Survey, in *Statistical Monthly*, vol. I, No. 3, May 1929, published by Bureau of Statistics, Legislative Yuan, Nanking. See note 2, p. 272.

Since less than 4 per cent. of the cultivable land in Pinghu is not yet cultivated, the percentage of land owned by these landlords shows an appallingly unequal distribution of property. The small and middle landlords claim 40-52 per cent. of the land, and the big owners claim 39-56 per cent. The large percentage of land in the hands of those who own more than 1,000 mow is not a phenomenon typical of the Yangtze delta. Indeed, throughout the entire Yangtze basin, the small and middle landlords enjoy the predominancy in landownership.

In Wusih, Kiangsu, those owning more than 1,000 mow claim only 8-32 per cent. of the land cultivated, while the middle and the small owners claim 30-68 per cent. of it. About 9 per cent. of the cultivated land of Wusih belongs to the local government, the temples, and the various clans. Only 52 per cent. of the cultivated land of the entire district is left to more than 600,000 peasants in Wusih. The National Research Institute of Social Sciences, Academia Sinica, has made a survey of twenty representative villages in this district. As a result of the survey, the distribution of land property among 1,035 rural families may be shown in the following table.

DISTRIBUTION OF LAND PROPERTY IN WUSIH¹
(Landlords and peasants in 20 representative villages, 1929)

	<i>No. of Families</i>	<i>Per cent. of Families</i>	<i>No. of Mow Owned</i>	<i>Per cent. of Land</i>	<i>Average per Family</i>
Landlords . . .	59	5.7	3,217	47.3	54.5
Rich peasants . . .	58	5.6	1,206	17.7	20.8
Middle peasants . . .	205	19.8	1,418	20.8	6.9
Poor and hired peasants .	713	68.9	965	14.2	1.4
Total . . .	1,035	100.0	6,806	100.0	6.6

The landlords dwelling in Wusih villages usually do not manage their farms; not more than 5 per cent. of them do so. They form less than 6 per cent. of the rural families and possess 47 per cent. of the cultivated land, while nearly 69 per cent. of the families, poor peasants and hired peasants, keep only 14.2 per cent. of the land.

Take a district not far west of Hangchow, and find another example of unequal distribution. This district, Lingan, was investigated in 1930 by ten men sent out from the National Reconstruction Committee, Nanking. From their report, we know that nearly all the peasants owning below ten mow are poor peasants. Lingan is not as rich as

¹ Statistics compiled by Liu Hwei-pu and Liu Tuan-seng.

Wusih; all the same, its poor peasants, nearly 48 per cent. of the population, possess only 13 per cent. of the cultivated land.

DISTRIBUTION OF LAND PROPERTY IN LINGAN¹

(A general survey, 1930)

<i>Size of Property</i>	<i>No. of Families</i>	<i>Per cent. of Families</i>	<i>No. of Mow Owned</i>	<i>Per cent. of Land</i>
1-5.99 mow . . .	3,113	31.0	16,000	7.0
6-10.99 mow . . .	1,718	17.1	14,000	6.1
11-50.99 mow . . .	4,106	40.8	20,000	8.7
51-100.99 mow . . .	646	6.4	60,000	26.1
101-200.99 mow . . .	382	3.8	70,000	30.4
201-500.99 mow . . .	75	0.7	30,000	13.0
501 and above . . .	17	0.2	20,000	8.7
Total . . .	10,057	100.0	230,000	100.0

In a rather mountainous region between the two river basins of the Hwai Ho and the Yangtze, the soil is inferior even to that of Lingan. Nevertheless, unequal distribution of land is there: at least 65 per cent. of the population of Nanyang, Honan, are poor peasants, and they own only one-fifth of the cultivated land of that district. The peasant family in Nanyang which owns and cultivates 25 mow is usually considered a poor family. A middle peasant here generally owns 50 to 70 mow, while most of the rich peasants own 100 mow per family.

DISTRIBUTION OF LAND PROPERTY IN NANYANG²

(A general survey, 1933)

<i>Size of Property</i>	<i>No. of Families</i>	<i>Per cent. of Families</i>	<i>No. of Mow Owned</i>	<i>Per cent. of Land</i>
1-4.99 mow . . .	42,279	38.9	126,800	7.2
5-9.99 mow . . .	28,625	26.3	229,000	13.0
10-49.99 mow . . .	33,355	30.6	867,100	49.3
50-99.99 mow . . .	3,487	3.2	263,300	14.9
100-199.99 mow . . .	850	0.8	127,900	7.3
200 and above . . .	244	0.2	146,300	8.3
Total . . .	108,840	100.0	1,760,400	100.0

¹ Institute of Economic Survey in Chekiang under National Reconstruction Committee: *Rural Survey of Lingan, Chekiang*, Hangchow, 1931, p. 86.

² Data furnished by Liu Tuan-seng, staff member of the Third Provincial Bureau of Agriculture and Forestry, Nanyang, Honan.

We have no detailed information regarding distribution of the land property in the South-western provinces, such as Fukien, Yunnan, Kwangsi, and Kwangtung. The two volumes of the *Report on the General Survey of Agricultural Conditions in Kwangtung Province*, the first published in 1925 by the University of Kwangtung, and the second in 1929 by the College of Agriculture, Sun Yat-sen University, give some idea of distribution of various sizes of farms but indicate nothing of land-ownership. Two enthusiastic Russian students, M. Volin and E. Yolk, went to Kwangtung in the summer of 1926 to gather materials for a study of the Chinese peasantry. With these materials a Hungarian writer, L. Magyar, has made an estimate of the distribution of land property in Kwangtung Province.¹ Nearly all the information collected by Volin and Yolk was from organized peasant unions of that time, and these organizations were dominated by rich and middle peasants. Subsequent data all go to show the estimate of Magyar to have been far from correct. Limited by the source of his materials, he has failed to give full consideration to the real situation among the poor peasants. To allot five as the average number of mow² owned per family among the poor peasants in Kwangtung, as Magyar has done, is certainly a deviation from the truth. Of course, his estimate was made in 1927; later, in 1929, when he wrote again, he made the following statement:

'It may be roughly estimated that the landlords in South-western provinces possess 60-70 per cent. of the cultivated land; those in the Yangtze provinces possess 50-60 per cent.; those in Honan and Shensi possess 50 per cent.; those in Shantung possess 30-40 per cent.; those in Hupch possess 10-30 per cent.; and those in Liaoning, Kirin, Heilungkiang, Jehol, Chahar, and Suiyuan possess 50-70 per cent.'³

Since landlords connote landless, and there are so many landless in Kwangtung, the distribution of land property may be re-estimated as in the table on the opposite page.

An overwhelming majority of the poor, about 74 per cent. of the families, possess less than one-fifth of the cultivated land, while 2 per cent. of the families enjoy the ownership of more than half of the land. Such is the general condition in Kwangtung. In the eastern part of

¹ A mimeographed copy of Volin and Yolk, *Agrarian Relations in Kwangtung*, of about 1,000 pages, appeared in 1927. Magyar's estimate is to be found in his *Agrarian Economy of China* (in Russian), 1928, Soviet State Publishing Bureau (see pp. 337-8 of the Chinese translation).

² The size of a mow in Kwangtung cannot be larger than in Paoting; the mow in Nanyang cannot be smaller than in Lingnan. In terms of *are*, the Paoting mow equals 6.405; the Ting Hsien mow equals 6.151; the Lingnan mow equals 6.144; the Pinghu mow equals 5.728; and the Wusih mow equals 5.616.

³ L. Magyar: *Outline for Chinese Economy* (in Russian), 1931 (see p. 11, Chinese translation).

Kwangsi Province, where seven districts were surveyed in 1926 by Tahanoff, 2 per cent. of the families possess 71 per cent. of all the cultivated land; 25 per cent. of the families own 29 per cent. of the land; and about 70 per cent. of the families are landless.¹

DISTRIBUTION OF LAND PROPERTY IN KWANGTUNG

(A general estimate, 1933)

	No. of Families	Per cent. of Families	No. of Mow Owned	Per cent. of Land	Average per Family
Landlords . . .	110,000	2	22,360,000	53	203.3
Rich peasants . . .	220,000	4	5,460,000	13	24.8
Middle peasants . . .	1,090,000	20	6,550,000	15	6.0
Poor and hired peasants	4,040,000	74	8,080,000	19	2.0
Total . . .	5,460,000	100	42,450,000	100	7.8

Parcellation of Cultivated Land.

A few landowners claim large tracts of land; for them multitudes of land-hungry peasants have to labour. The disproportion of land-ownership is a system which no one would dream of inventing were it not already in existence. It is, of course, not unknown in other countries; but it is more striking in India and in China because the percentage of poor peasants is much higher, and the cultivated land much more broken up. The land hunger of the poor peasants in China is aggravated by land parcellation.

In Baden, Germany, where small farms prevail, the average size of farm per family is 3.6 hectare.² In Japan, among the poorest peasants, the usual size of farm is 0.49 hectare.³ But in Wusih, Kiangsu, among the 700 families of poor peasants investigated, the average size of their holdings is not more than 0.29 hectare; and in Paoting, Hopei, among the 817 families of poor peasants investigated, the average size is 0.53 hectare. Even taking all the peasants together, the average size of cultivation is only 0.42 hectare in Wusih, and 1.06 hectare in Paoting. (See table, p. 278).

In colonial India, where small peasantry also dominates and large farms are rare, most of the lands are rented to poor peasants for cultiva-

¹ Magyar, *Agrarian Economy of China*, Chinese translation, p. 344.

² Max Sering, *Die deutsche Landwirtschaft unter volks- und weltwirtschaftlichen Gesichtspunkten*, Berlin, 1932, p. 755.

³ Goichi Takamura, *An Analysis of Japan's Agricultural Problems* (in Japanese), Tokyo, 1931, pp. 148-50.

AVERAGE SIZE OF CULTIVATION PER FAMILY¹

<i>Distribution</i>	<i>No. of Families Investigated</i>	<i>Year</i>	<i>Average per Family in Local Mow</i>	<i>Average per Family in Hectares</i>
Ting Hsien . . .	790	1928	25.80	1.59
Paoting . . .	1,565	1930	16.54	1.06
Wusih . . .	963	1929	7.50	0.42

tion.² The Indian agricultural fields are divided into distant and separated plots.³ So are the Chinese farms. Take thirty-four peasant families in Wusih, each cultivating more than 16 mow (90 *are*): there are on the average twelve plots per family. Each individual plot, on the average, is 2½ mow, or about 14 *are*, while the smallest plot is only 0.35 mow, or about 2 *are*.

CULTIVATED PLOTS OF 34 FAMILIES IN WUSIH

(In 24 villages, 1931)

<i>Size of Cultivation</i>	<i>No. of Families</i>	<i>Total No. of Mow</i>	<i>Total No. of Plots</i>	<i>Average No. per Family</i>	<i>Ave. Area per Plot</i>
16-20.99 mow .	3	57	32	10.67	1.8 mow
21-31.99 mow .	20	535	236	11.80	2.3 „
32 and above .	11	444	143	13.00	3.1 „
Total .	34	1,036	411	12.09	2.5 mow

In the Ting Hsien survey, conducted by Franklin C. H. Lee, 1,552 plots of 200 families in one big village were recorded. These plots are usually located about one mile from the peasants' houses. Of the 200 families, 26 constitute the mode, having 6 plots each, and the 2 worst ones have 20 plots each. The average size of all the plots investigated is 4.2 local mow, or about 26 *are*. Sixty-nine per cent. of 1,552 plots are less than 5 mow each.⁴ Much as in India, fragmentation involves endless waste of time, money, and effort; it restrains the cultivators from attempting improvements even if they have the means to improve.⁵

The social and economic significance reflected in the number and size of plots of the different families has been clearly demonstrated by the

¹ Franklin C. H. Lee, *Ting Hsien: A Social Survey*, Peiping, 1933, p. 629. The figures for Wusih and Paoting are furnished by the National Research Institute of Social Sciences, Academia Sinica.

² Royal Commission on Agriculture in India, *Report*, London, 1928, Chapter I, p. 12.

³ G. C. Mukhtyar, *Life and Labour in South Gujarat Village*, Calcutta, 1930, p. 114, tables.

⁴ Franklin C. H. Lee, *op. cit.*, pp. 623-4.

⁵ Royal Commission on Agriculture in India, *Report*, pp. 134-5.

result of the Paoting survey, carried out by the National Research Institute of Social Sciences and the Peiping Institute of Social Research. Of the plots of 1,390 families investigated, 4.84 per cent. were less than 1 mow; 57.09 per cent. from 1 to 4.99 mow; and 38.07 per cent. 5 and above 5 mow. The landlords who manage their own land and the rich peasants had a higher percentage of large plots and a lower percentage of small plots; while, on the contrary, the middle and the poor, especially the hired peasants, had a higher percentage of small plots and a lower percentage of large plots. In one year, from 1929 to 1930, through various processes of sale and mortgage, and of property division in the family, the poorer families lost more of the comparatively large plots and had to keep more of the comparatively small plots. Since they are the vast majority of all the families, the number of the larger plots has been reduced, and that of the smaller ones increased. In 1930, 4.92 per cent. of the plots of 1,390 families were less than 1 mow; 57.44 per cent. from 1 to 4.99 mow; and 37.64 per cent. 5 and above 5 mow.

As to the average size of the plot, it has also a general tendency to reduction, most apparent among the hired peasants.

CONTRACTION OF THE AVERAGE SIZE OF PLOT IN PAOTING

(1,390 families, from 1929 to 1930)

Year	<i>Managing Landlords</i>		<i>Rich Peasants</i>		<i>Middle Peasants</i>		<i>Poor Peasants</i>		<i>Hired Peasants</i>	
	<i>Aver. size (mow)</i>	<i>Index</i>	<i>Aver. size (mow)</i>	<i>Index</i>	<i>Aver. size (mow)</i>	<i>Index</i>	<i>Aver. size (mow)</i>	<i>Index</i>	<i>Aver. size (mow)</i>	<i>Index</i>
1929	10.63	100.0	8.10	100.0	4.66	100.0	3.22	100.0	1.88	100.0
1930	10.47	98.5	7.99	98.6	4.61	98.9	3.21	99.7	1.80	95.7

The tendency to further parcellation, regardless of the sizes of farms in China, is the surest barrier to agricultural production and to a rational treatment, conservation, and improvement of the soil itself. This tendency has been the chief cause of soil deterioration and exhaustion. The average yield per hectare of cotton is far below the Egyptian, of tobacco far below that of the U.S.S.R., of maize far below that of Italy, of barley far below that of Canada, and of wheat far below that of Japan. In China the average yield of rice per hectare, 1928-30, was only 18.9 quintals (100 kilogrammes for each quintal); in the U.S.A. it was 22.7 quintals, in Japan 35.9 quintals, in Italy 46.8 quintals, and in Spain 62.3 quintals per hectare during the same period of years.¹

Small peasants' property excludes by its very nature the development

¹ Statistical figures taken from *Year-book of Agricultural Statistics* of the International Institute of Agriculture in Rome.

of the social powers of production of labour, the social forms of labour, the social concentration of capital, cattle raising on a large scale, and a progressive application of science. Professor C. T. Dragoni of Italy, who recently visited China for the League of Nations, said in his report to the National Economic Council, Nanking:

'In other countries large, medium-sized, and small agricultural enterprises are often found in the same region. In the large and medium-sized farms often very able technicians are employed to direct the farm business, and they apply the most perfected methods to secure maximum results. The small farmers see these results, and try to imitate them so far as convenient for their special conditions. In such a way technical progress is continually spreading. In China nothing of this kind will happen, because there are no farms sufficiently large to permit the employment of a technical staff.'

To employ a technical staff! It would be ridiculous to expect the small patch of land to support a technician, when it can hardly sustain an ass or a buffalo. The utter inadequacy of animal power in Chinese agriculture is apparent to most foreign observers; and its far-reaching economic consequences have been emphatically pointed out by an Indian writer, Manabendra N. Roy.¹ He says, in German:

'Chronische Armut der Bauern und eine unglaublich niedrige allgemeine Lebenshaltung sind die Folgen. Die sprichwörtliche Intensität der chinesischen Landwirtschaft bedeutet also, dass der Bauer gezwungen ist, die grösste Arbeitsmenge anzuwenden, um aus der kleinsten Bodenfläche die höchstmögliche Quantität Frucht herauszuholen. Der Ackerbau vernutzt unter solch ungünstigen Produktionsbedingungen fast die ganze gesellschaftliche Arbeit.'

BIG LANDOWNERS AS THE CHIEF FACTOR OF RURAL DISINTEGRATION

At present, the poor peasants in China have a rather dim hope to get more land. For, under modern economic influences, the process of individualization of property in China has been going on for a century. State and community lands have been constantly usurped by big landowners, who practically, though illegally, enjoy a full monopoly of rent collection from these lands.

About three and a half centuries ago, of the 701,400,000 mow of cultivated land in China, 9.19 per cent. were lands granted for military colonies, farmed or supposed to be farmed by soldiers; 27.24 per cent. were various other kinds of state lands; and 63.57 per cent. were temple land, clan land, and land of private families.² At that time, land of

¹ M. N. Roy, *Revolution und Konterrevolution in China*, Berlin, 1930, p. 77.

² 'The military colonial land in the empire totalled 64,424,300 mow, or about one-tenth of the total cultivated area as estimated in the sixth year of the reign of Emperor

private families was perhaps only 50 per cent. of the total. For the present, however, though statistical figures for the entire country are lacking, this percentage must have greatly increased. Take Wusih, for instance where the land property in 1931 was thus divided: state land 0.48 per cent., temple land 0.24 per cent., clan land 7.81 per cent., and land of private families 91.47 per cent.

There were still 7,570,000 mow of land for military colonies in the beginning of the present century, though soldiers in China had long ceased to be cultivators. Through inheritance, sub-renting, secret mortgaging, and all sorts of tax confusions, the land gradually passed into private hands.¹ In face of this reality, the provincial authorities have proclaimed public sales of this land, notably in Hupch, Hunan, and Chekiang, at a comparatively low price of 7 to 10 *Yuan* per mow (*Yuan* is a Mexican silver dollar). Yet this price has gone far beyond the purchasing ability of the poor peasantry.

Another form of Chinese state land, begun in the eleventh century, is the 'education land'. The income from its rent is to defray the expenses of worshipping Confucius, of subsidizing poor scholars, and recently of maintaining public schools. Such land exists in a majority of the districts. It claims 1.21 per cent. of the total cultivated land in Kwanyun (Kiangsu) and 3.78 per cent. in Tsinan (Shantung). In the province of Yunnan the income from this land constitutes 55 per cent. of the total educational fund. But 'education land' is now being sold both secretly, as in Kiangsu, and publicly, as in Szechuan.² So is the 'flag land', land originally granted to Manchurian soldiers, being sold. Here the provincial governments are also its liquidators. In Hopei the tenants of 'flag land' were willing to give up cultivation when they could not pay the land price set up by the official bureaux.³

The system of community lands in China is also crumbling. Temple land, which plays an important part in agrarian relations, mostly in the Yangtze provinces, is being secretly mortgaged and sold by powerful monks, or publicly auctioned by local military authorities.⁴ Clan land

Wan-Li (1577), of 701,397,628 mow. However, at that time farm land was of two types: the government's land and the people's land; in each county and district three-tenths of the land belonged to the government.' Huang Li-chow, *The Land System* (in Chinese), section II.

¹ Ordinance of the Provincial Government of Kiangsu, No. 1610, April 1913; ordinance of the Department of Finance, Kiangsu Province, No. 1925, December 18, 1914.

² *Chun Yang Ye Pao*, Nanking, Jan. 13, 1933; *Shantung Min Kuo Ju Pao*, Tsinan, Feb. 25-6, 1931; *Yunnan Min Kuo Ju Pao*, Yunnan, April 4, 1932; *Chun Yang Ju Pao*, Nanking, June 23, 1932; *Chungking Shang Wu Ju Pao*, Chungking, June 25, 1930.

³ *Ta K'un Pao*, Tientsin, Sept. 27, Nov. 21, 1929.

⁴ *Shun Pao*, Shanghai, Apr. 10, 1930; *Chungking Shang Wu Ju Pao*, Feb. 7 and Aug. 2, 1930.

has a high percentage in Kwangtung, Kwangsi, Kweichow, and Fukien. But it is monopolized by a few rent collectors who have thus practically become big landowners.¹ Recently the Provincial Government of Szechuan has received petitions to stop the army officers stationed in various districts from confiscating and selling clan land.² The military people in that province have not only helped to dissolve clan estates, but have also broken up the land property belonging to guilds.³

Even in regions most promising for inner colonization, such as Liaoning, Kirin, Heilungkiang, Jehol, Charhar, and Suiyuan, public domain has been rapidly transformed into private property. In about twenty-four years, 1905-29, 95 per cent. of the cultivable lands in Heilungkiang have gone into private possession, mostly to big landlords; less than 25 per cent. of their lands are under cultivation. Most of these big landlords have been local authorities in civil and military administration. When Chow Shao-yi was the chief of the Heilungkiang Land Bureau, 1906-10, he took for himself a fertile tract of 50 square miles in the south-eastern corner of Chaotung, north of the Sungari river. At present, half of this tract is cultivated, and the Chow family collects rent from it. Wu Tsen-shun, then the provincial governor-general, secured land, mostly in 1924-5, in nearly every district of Heilungkiang. In addition, he acquired about 20,000 mow in Taonan, which lies in the neighbouring province of Liaoning.

The 265 Catholic churches in Suiyuan claim a total of about 5,000,000 mow. Two families, Yang and Lee, in Linho District, Suiyuan, own no less than 70,000 mow; and, besides, they usurp more than 400,000 mow of state land. 'The tenants cultivate the public domain and pay rent into private pockets.'⁴ The big landowners of Linho monopolize whatever state land there is in the district, and threaten the poor and middle peasants when they attempt to secure some of it. Indeed, even if they were given the chance to buy, they can hardly afford to pay the price and all the illegal fees attached to it.⁵

In recent years, thousands and tens of thousands of destitute refugees in Shantung, Honan, Hopei, northern Shansi, and northern Shensi, who have been compelled by famine, war, taxation, requisitions, and banditry to leave their homes, have arrived in the regions for inner colonization. These penniless peasants who are unable to find their own food, clothing, and shelter, are not given land, and cannot hope to be indepen-

¹ National Christian Council, *Kwangtung Peasant Movement* (in Chinese), 1927, Shanghai, pp. 44 and 66.

² *Szechuan Sin Pao*, Jan. 21, 1932.

³ *Kweiyang Min Kuo Ju Pao*, Nov. 11, 1930.

⁴ *Suiyuan Min Kuo Ju Pao*, June 6, July 13, 1932.

⁵ *Suiyuan Min Kuo Ju Pao*, June 7, August 31, 1932. There is a local saying: 'The Bureau of Colonization loves money; poor people find no way to buy [land]'.

dent farmers. Many of them remain unemployed, some become tenants, but most of them are hired by rich peasants and managing landlords with whom is vested a high percentage of land. According to E. E. Yashnoff, the statistician of the Economic Bureau of the Chinese Eastern Railway, there were in 1925 in the fifty-two agriculturally best developed districts 300,000 tenant families and 700,000 families of managing landlords and self-cultivating peasants.

LAND DISTRIBUTION AMONG 700,000 FAMILIES¹

(In Kirin and Heilungkiang, 1925)

	<i>Per cent. of Families</i>	<i>Per cent. of Land</i>
Managing landlords and rich peasants	14.3	52
Middle peasants	42.8	39
Poor peasants	42.9	9
Total	100.0	100

Famine under modern circumstances tends to concentrate land-ownership. In China, where poor peasantry is so predominant, this tendency is especially clear. Take Ta-Se-Ling, for instance. During the famine years of 1929-30 more than half of the land of this village in Saratsi was sold to Suiyuan government officials.² In the middle part of Shensi, the famine of 1928-30 has most tragically demonstrated the land concentration; often 100 mow have been an exchange for three days' food of one single family.³ In 1931 the great flood in the several provinces of the Yangtze basin sent more land into the hands of big landlords and rich peasants.

The succession of natural disasters and man-made calamities which have afflicted China recently, and still more recently the dropping of grain prices, have both directly and indirectly reduced the income of the rent collectors. Even in a comparatively less disturbed province like Kiangsu, the multitude of tenants now imprisoned in various districts testifies to a general failure of rent payment.

Landlords not only have to face the problem of rent collection, but also must answer the demands of taxation.

Even in Kiangsu the land tax has increased by nearly 90 per cent. within the last ten years. Such a rapidity of increase far exceeds the advance of rent. Thus many landlords are only too glad to sell their land, especially when they face the drop in the price of rice and wheat.

¹ Economic Bureau of the C.E.R., *Agriculture in North Manchuria* (in Chinese), Harbin, 1928, pp. 84-6.

² *Suiyuan Min Kuo Ju Pao*, March 3, 1933.

³ *New Shensi Monthly Sian*, vol. i (1931), No. 5, p. 88.

LAND TAX PER MOW IN WUSIH, KIANGSU, 1915-33¹

<i>Year</i>	<i>Tax per Mow (Yuan)</i>	<i>Index</i>	<i>Year</i>	<i>Tax per Mow (Yuan)</i>	<i>Index</i>	<i>Year</i>	<i>Tax per Mow (Yuan)</i>	<i>Index</i>
1915	0-627	100	1922	0-632	101	1929	0-948	151
1916	0-627	100	1923	0-626	100	1930	1-118	178
1917	0-617	98	1924	0-726	116	1931	1-036	165
1918	0-628	100	1925	0-648	103	1932	0-916	146
1919	0-626	100	1926	0-986	157	1933	1-182	189
1920	0-632	101	1927	0-936	149			
1921	0-626	100	1928	0-962	153			

Many landlords in Szechuan have flocked into cities like Chungking and Chengtu, abandoning their land and thus avoiding taxes. For, in all the districts north of the Yangtze and south of Sihan, Pengan, and Kwanhsien, that is, the central and richest part of the province, the main land tax is now being collected by the local military authorities as much as twenty to forty years in advance, excluding surtaxes and requisitions. Let us take a few districts just as examples.

ADVANCE COLLECTION OF LAND TAX IN SZECHUAN²

<i>Name of District</i>	<i>No. of Years in Advance</i>	<i>Time of Collection</i>	<i>Name of District</i>	<i>No. of Years in Advance</i>	<i>Time of Collection</i>
Chungking	5	April, 1931	Sihan	22	March, 1932
Pishan	7	January, 1930	Tungnan	23	September, 1931
Hokiang	8	January, 1930	Pengan	24	February, 1933
Linshui	10	June, 1931	Lungchang	26	June, 1932
Kiangnan	12	January, 1931	Chengtu	28	January, 1933
Iping	14	November, 1931	Wenkiang	30	July, 1931
Wei yuan	15	August, 1931	Wanhsien	31	December, 1932
Jungehang	18	January, 1931	Tsungning	38	January, 1933
Yochih	19	July, 1931	Kwanhsien	41	April, 1933

In a district not mentioned in the above table, the district of Tzechung, land tax for fourteen years was collected in three years, 1930-3. In another district, named Nantsung, land tax for eleven years was collected within one year and a half, from October 1931 to March 1933.

In other provinces also land taxes may occasionally be collected in advance, but never to the extent found in Szechuan. Nevertheless, the land tax burden elsewhere in China is by no means much lighter. In Hunan, for instance, surtaxes amount to four times the main land

¹ Based upon the official records in the District Financial Bureau.

² Table compiled by Chang Si-chan, based upon Szechuan correspondence.

tax.¹ In Pahsien, a district in northern Kiangsu, the present rate of land tax is 4.774 Yuan for each mow.² Since military requisitions are often collected according to the number of mow, they are simply another form of land taxation. In only two years, 1929 and 1930, as far as we can read from the Chinese newspapers, of the 1,941 administrative districts in China no less than 823 have been afflicted by this sort of unique tax.³ Requisitions are most frequent in the provinces of the Yellow River basin.

Take only five districts in Shantung Province; they yielded in 1928 a total of 468,789 Yuan for the main land tax, but at the same time had to furnish requisitions amounting to 1,286,395 Yuan. Thus the requisitions were on the average 27.4 per cent. higher than the main land tax. This percentage was still higher in regions where military operations were in preparation, such as the southern part of Hopei and the northern part of Honan during 1929. It was 432 per cent. In regions where actual military operations took place, such as the eastern and middle parts of Honan from April to October 1930, the percentage went up to 4,016; that is, requisitions amounting to forty times the main land tax. From November 1927 to May 1928, in the northern part of Shansi, north of the Great Wall, the requisitions of fifteen districts were on the average 225 times the main land tax.⁴

Heavy taxation, however, does not mean the break-up of landlordism itself. It simply hastens the downfall of those old landlords who, under modern circumstances, have been rendered impotent to dodge the various land taxes, and ultimately gives birth to new ones who are capable of evading or sustaining them. Chinese taxes are often progressive in name but quite retrogressive in reality.⁵ Powerful absentee landlords sometimes do not pay taxes at all; in that case, their share of the tax burden falls upon the shoulders of resident families, most of whom are poor peasants.⁶ To-day the number of those landlords who are purely rent collectors is diminishing; the number of those who command trade capital and political influence is increasing. The most apparent instance is in the middle part of Shensi, where, after the recent famine, land property is concentrated in the hands of military and civil officials, merchants, and pseudo-philanthropists. Landlords in China are getting more active, entering into new politics and taking up new business; and, together with the changing nature of politics and business, they are having their own nature altered.

¹ *Hunan Min Kuo Ju Pao*, Changsha, Apr. 6, 1933.

² *Ta Kuo Pao*, Tientsin, Feb. 26, 1933.

³ Wong Yin-seng and others, *Requisitions and the Peasantry in North China*, Shanghai, 1931, p. 9.

⁴ *Ibid.*, pp. 14-18.

⁵ *Ibid.*, pp. 20-35.

⁶ *Suiyuan Min Kuo Ju Pao*, Mar. 3, 1933.

Work of Landlords and of Rich Peasants.

Quite unlike the landlords in France *sous l'ancien régime*, the landlords in China are often quadrilateral beings.¹ They are rent collectors, merchants, usurers, and administrative officers. Many landlord-usurers are becoming landlord-merchants; many landlord-merchants are turning themselves into landlord-merchant-politicians. At the same time, many merchants and politicians become also landlords. Landlords often possess breweries, oil mills, and grain elevators. On the other hand, the owners of warehouses and groceries are mortgagees of land, and eventually its lords. It is a well-known fact that pawnshops and business stores of landlords are in one way or another affiliated with banks of military and civil authorities.² In the spring of 1930 the Kiangsu Provincial Bureau of Civil Affairs in Chinkiang made a survey of 514 big landlords of the province. While some big landlords practise usury as their chief profession, nearly all of them have something to do with it. Again, many landlords are military and civil officers; they are often, if not always, *Steuerpächter* or tax-farmers. Their income consists of both tax and rent. In the northern part of the province, economically more backward, there is a higher percentage of landlords who have chosen an official career. The percentage of landlords who take up usury as their chief profession is much higher in the southern part of Kiangsu. A few landlords in southern Kiangsu have shares in industrial capital; not so in northern Kiangsu.

CHIEF PROFESSIONS OF 374 BIG LANDLORDS IN KIANGSU³

(Each owning above 1,000 mow, 1930)

	<i>Military and Civil Officers</i>	<i>Usurers</i>	<i>Merchants</i>	<i>Industrial Men</i>
Southern Kiangsu:				
No. of families . . .	44	69	36	12
Per cent.	27·33	42·86	22·36	7·45
Northern Kiangsu:				
No. of families . . .	122	60	31	..
Per cent.	57·28	28·17	14·55	..

Each of the 514 big landlords investigated owns from 1,000 to 60,000 mow; and 374 of them have their chief profession definitely known. For most of the remaining 140 the profession is not ascertained; but

¹ Henri Séc, *Esquisse d'une Histoire du Régime Agraire*, Paris, 1921, pp. 25-34.

² Motonosuke Amano, *The Credit System in the Villages of Manchuria* (in Japanese), Dairen, 1933; K. A. Wittfogel, *Wirtschaft und Gesellschaft Chinas*, Leipzig, 1931, pp. 760-2.

³ Table compiled by *Chu Min-ju*.

only a very few of them are purely rent collectors. Of the total of 374, 44.39 per cent. are military and civil officers of different ranks, 34.49 per cent. are pawnshop and money-shop owners and individual usurers, 17.91 per cent. are shopkeepers and traders, only 3.21 per cent. are shareholders of factories. Elsewhere in China, the landlords rarely become factory shareholders; they practise usury most naturally. A comparatively higher percentage of landlord-officials, however, may be found in the north-western and the north-eastern provinces, and that of landlord-merchants in Hopei, Shantung, Hupeh, and other provinces where trade has been better developed.

Village administration in China is simply permeated by the omnipresent influences of the landlord. Tax, police, judicial, and educational systems are built upon his power. Poor peasants who fail to satisfy the landlord-officials in tax and rent payments are brutally imprisoned and tortured. In Kiangsu as many as 500 or more tenants are kept in one small district prison.¹ The famous 'dark tower' in the villages of southern Shensi is a unique place for punishing the peasants. Once the poor peasant is taken into the tower, he has to pay for his food, water, and even lavatory convenience.

In Wusih there are about 518 village chiefs; 104 of them have been investigated as regards their economic status. 91.3 per cent. of them are landlords, 7.7 per cent. are rich peasants, and 1 per cent. small merchants. Of these landlords, 43.27 per cent. are middle and 56.73 per cent. are small ones. Fifty-nine village chiefs, having less than 100 mow each, own on the average 44 mow per family; and 45, having 100 mow or more each, own 224 mow per family. Hence it is not difficult to glimpse the numerical strength of landowners in village administration. In this respect Wusih is typical of all the districts in China.

Because of the extremely small (dwarf) farms, poor peasants in China cannot secure the credit they need from the banks directly. Thus, the big landowners in the villages, besides their political power, always command the trade and usury capitals of the locality. When Chu Tse-seng investigated the marketing of cotton in Hopei, in 1927, he found 'the majority of cotton cultivators in Hopei are small independent farmers with little or no capital at all; they therefore have to finance their cultivation by loans. . . . The rate paid by the farmer is usually 36 per cent. per annum. When money is tight, the interest may reach the high rate of 60 per cent. per annum. Money is lent for a six months' period

¹ *Chun Yang Ju Pao*, Feb. 3, 1933, see news concerning Soochow; *Shun Pao*, Shanghai, Mar. 3, 1933, see news concerning Changshu. The imprisoned tenants are prevented from doing spring cultivation.

on the securities of immovables only.¹ In many districts of Yunnan and Kweichow, landlords give loans to poor peasants and usually charge a rate of interest of 30 per cent. when the loan is paid in cash, and 40 per cent. when paid with grain. In Kweiyang the rate sometimes reaches 72 per cent. per annum; and in Kunming the big landlords often charge as high as 84 per cent. per annum.²

The big landowners, landlords, and rich peasants take advantage of the poverty of peasants, a poverty chiefly due to lack of land, and play with the twin balls of usury and trade capitals. They corner grain, manipulate prices, and extend loans of all sorts. As years go on, they double, treble, and manifoldly increase their original holdings of land property. In Yushan, north-eastern Kiangsi, a certain landlord of 30 mow has acquired through usury more than 1,000 mow in thirty years. In Iwo, central Chekiang, another landlord, by cornering grain and practising usury, increased his number of mow from 750 to more than 2,000 within ten years.³

Pawnshops in China are almost ubiquitous. They represent the usury organ of a commercial character. Where trade is better developed pawnshops claim a larger share of capital from merchants; where economic remnants of feudalism still dominate, most of their capital is directly furnished by landlords.

PAWNSHOPS IN FOUR DISTRICTS OF KIANGSU⁴

(April 1933)

District	No. of Pawnshops	Circulating Capital (Yuan)	Sources of this Capital	
			Per cent. from Merchant	Per cent. from Landlord
Jukao . . .	11	340,000	20	80
Changshu . . .	20	720,000	22	78
Wusih . . .	34	1,210,000	75	25
Sunkiang . . .	17	510,000	65	35

Sunkiang and Wusih are commercially more prosperous than Jukao and Changshu, but under present circumstances the larger part of the

¹ T. S. Chu and T. Chin, *Marketing of Cotton in Hopei Province*, Institute of Social Research, Peiping, 1929, p. 9.

² Ministry of Railways, 1931: *Report of an Economic Survey along the Hunan-Yunnan Line and Yunnan-Kweichow Section*, p. 104; *Report of an Economic Survey in the Counties of Yunnan and Kweichow*, p. 47; *Report of an Economic Survey of the County and City of Kwen-Min*, pp. 87-8 (all in Chinese).

³ Liu Tsen-chin, in *Eastern Miscellany Monthly*, Peasantry Special Issue, 1927, p. 128.

⁴ Compiled by Shih Kai-fu.

trade capital is derived undoubtedly from agricultural rent. The Chinese pawnshop, therefore, is the best expression of usury-trade-landlordism—an institution with three phases.

Rich peasants in China participate in usury and trade much as the landlords do. Some of them rent out their implements, or their agricultural animals, or even a portion of their land, purely for the sake of collecting rent. Thus the Chinese rich peasants have become partial landlords. Because of land parcellation, heavy taxation, and the drastic drop of grain prices, they cannot and do not develop towards capitalism as otherwise they might. For instance, fifty-eight rich peasant families in Wusih have rented out no less than 18·67 per cent. of their land to poor peasants.

LAND OF RICH PEASANTS IN 20 REPRESENTATIVE
VILLAGES OF WUSIH, 1929

<i>Size of Ownership (Mow)</i>	<i>No. of Families</i>	<i>Total Mow of Land</i>	<i>Land Rented Out (Mow)</i>	<i>Per cent. of Total</i>
Below 16 . .	22	181·0	1·5	0·83
16-31·99 . .	29	667·1	80·4	12·05
32 and above .	7	358·2	143·3	40·01
Total . .	58	1,206·3	225·2	18·67

Towards the end of the nineteenth century, capitalism was advancing in Russian agriculture. The situation was then just the reverse. Russian poor peasants of that period had a high percentage of their land rented out for cultivation, and the Russian rich peasants had a high percentage rented in.¹ To-day, in the Yangtze basin, the vast majority of poor peasants are tenants; numerous rich peasants rent out their land.² In northern provinces, where the productivity and therefore also the rent are comparatively lower than in the Yangtze basin, rich peasants often rent in some land from the poor peasants. The recent grain price drop, however, has delivered a fatal blow to those otherwise rather promising rich peasants. In Kwangtung and Fukien, rich peasants rent out land much as in the Yangtze provinces.

Generally speaking, those poor peasants in North China are mostly hired workers in the villages, and those in South China mostly tenants. The economic status of the latter is still worse than that of the former. In many places tenants have to pay taxes along with their landlords, who, even though they are the sole tax-payers, always shift the burden

¹ Lenin, *Development of Capitalism in Russia*, Japanese translation by Shirotori, Tokyo, 1930, pp. 158-9, tables A and B.

² International Famine Relief Commission, Branch Office in Shanghai, *Supplement to Co-operation News*, No. 5, June 10, 1932, p. 4.

CULTIVATED LAND OF 1527 FAMILIES IN PAOTING

(same 10 villages, 1929)

	<i>No. of Families</i>	<i>Land in Mow</i>	<i>Average Size of Cultiva- tion (Mow)</i>
Managing landlords and rich peasants	161	10,048.32	62.41
Middle peasants	358	8,549.57	23.88
Poor and hired peasants	1,008	7,174.80	7.12
Total	1,527	25,772.69	16.88

CULTIVATED LAND OF 1544 FAMILIES IN PAOTING

(same 10 villages, 1930)

	<i>No. of Families</i>	<i>Land in Mow</i>	<i>Average Size of Cultiva- tion (Mow)</i>
Managing landlords and rich peasants	162	10,091.57	62.29
Middle peasants	362	8,567.62	23.67
Poor and hired peasants	1,020	7,197.71	7.06
Total	1,544	25,856.90	16.75

INDEX NUMBERS OF AVERAGE SIZES OF CULTIVATION¹

(Paoting, 1927 as the Base)

	<i>Managing Landlords and Rich Peasants</i>	<i>Middle Peasants</i>	<i>Poor and hired Peasants</i>	<i>Total</i>
1927	100.0	100.0	100.0	100.0
1929	96.5	99.7	96.5	97.5
1930	96.3	98.8	95.7	96.7

landlords was 17.32 mow in 1927, 16.88 mow in 1929, and 16.75 mow in 1930. The greatest diminution, of course, occurs among the poor peasants.

In the Yangtze basin, also, comparatively large farming is decreasing in number, and smaller size of cultivation is on the increase. Take the district of Yingcheng, Hupeh, for instance. This place has been less disturbed by military operations than other districts of the province;

¹ Tables compiled by Chang Si-chan.

yet in one of its villages peasant families cultivating above 20 mow have been wiped out of existence within the last few years.

PEASANT FAMILIES IN THE VILLAGE OF TSING-SUI-HU¹
(Yingcheng, Hupeh, 1933)

<i>Size of Cultivation</i>	1933		1923	
	<i>No. of Families</i>	<i>Per cent.</i>	<i>No. of Families</i>	<i>Per cent.</i>
Below 5 mow	40	48.78	20	31.75
5-19.99 mow	42	51.22	25	39.68
20 mow and above . . .	..	..	18	28.57
Total	82	100.00	63	100.00

Still less disturbed by military operations than Yingcheng is Chinkiang, the provincial capital of Kiangsu. In one of the big villages of Chinkiang comparatively larger farms are rapidly disappearing while very small sizes of cultivation have sprung up in the last seven or eight years.

South-east of Chinkiang, in the same province, is located the well-known industrial district of Wusih. In the eastern part of this district, where tenants dominate the population, and in the southern part,

PEASANT FAMILIES IN THE VILLAGE OF SI-HU²
(Chinkiang, Kiangsu, 1933)

<i>Size of Cultivation</i>	1933		1928		1923	
	<i>No. of Families</i>	<i>Per cent.</i>	<i>No. of Families</i>	<i>Per cent.</i>	<i>No. of Families</i>	<i>Per cent.</i>
Below 5 mow	15	6.07	6	2.43	..	..
5-19.99 mow	167	67.61	130	52.63	72	29.15
20-50 mow	65	26.32	111	44.94	175	70.85
Total	247	100.00	247	100.00	247	100.00

where small self-cultivating peasants are in the majority, the size of cultivation for one family rarely exceeds twenty mow. Larger farms are to be found in the western and northern parts of the district. From these regions, where rich peasants have the best chance to develop, three representative villages have been selected and investigated. The result has shown that within the last ten years, 1922-32, families cultivating below 10 mow have increased by 12 per cent., while those cultivating

¹ Investigated by Liu Shu-chung.

² Investigated by Hwai Kuo-cheng.

from 10 to 20 mow have decreased by 2 per cent. and those above 20 mow decreased by 10 per cent.

CULTIVATED LAND OF 133 FAMILIES IN WUSIH

(3 representative villages, 1922)

<i>Size of Cultivation</i>	<i>No. of Families</i>	<i>Per cent. of Families</i>	<i>Land in Mow</i>	<i>Average Size (Mow)</i>
Below 10 mow .	51	38.35	301.5	5.9
10-19.99 mow .	48	36.09	640.6	13.3
20 and above .	34	25.56	1,113.7	32.8
Total . .	133	100.00	2,055.8	15.5

CULTIVATED LAND OF 147 FAMILIES IN WUSIH

(same 3 villages, 1927)

<i>Size of Cultivation</i>	<i>No. of Families</i>	<i>Per cent. of Families</i>	<i>Land in Mow</i>	<i>Average Size (Mow)</i>
Below 10 mow .	61	41.50	340.4	5.6
10-19.99 mow .	52	35.37	698.9	13.4
20 and above .	34	23.13	1,089.0	32.0
Total . .	147	100.00	2,128.3	14.5

CULTIVATED LAND OF 167 FAMILIES IN WUSIH

(same 3 villages, 1932)

<i>Size of Cultivation</i>	<i>No. of Families</i>	<i>Per cent. of Families</i>	<i>Land in Mow</i>	<i>Average Size (Mow)</i>
Below 10 mow .	84	50.30	448.9	5.3
10-19.99 mow .	57	34.13	787.7	13.8
20 mow and above	26	15.57	787.2	30.3
Total . .	167	100.00	2,023.8	12.1

PERCENTAGES OF INCREASE AND DECREASE OF WUSIH PEASANT FAMILIES

(3 representative villages, 1922-32)

	<i>Below 10 Mow Per cent.</i>	<i>10-19.99 Mow Per cent.</i>	<i>20 and above Per cent.</i>	<i>Total Per cent.</i>
1922 . .	38.35	36.09	25.56	100
1927 . .	41.50	35.37	23.13	100
1932 . .	50.30	34.13	15.57	100

The diminution of cultivation size would not be regarded as an undesirable phenomenon if at the same time the means of production should be increased. In China at present, however, the contractive tendency of cultivation is accompanied only by a general reduction of various means of production, such as labour animals, implements, and fertilizers. In Hoyang, where the Shensi famine has rather lightly visited, the village families without any labour animal have increased within the last ten years from 29 to 47 per cent., while those with three or more per family have decreased from 13 to 8 per cent.

LABOUR ANIMALS IN 3 VILLAGES OF HOYANG, SHENSI

<i>Families</i>	1933		1928		1923	
	<i>No.</i>	<i>Per cent.</i>	<i>No.</i>	<i>Per cent.</i>	<i>No.</i>	<i>Per cent.</i>
With no labour animal .	146	47.25	110	35.71	105	28.85
2 or 3 jointly owning 1 animal	30	9.71	29	9.42	5	1.37
With 1 animal	55	17.80	63	20.45	111	30.49
With 2 animals	52	16.83	57	18.51	97	26.65
With 3 or more	26	8.41	49	15.91	46	12.64
Total	309	100.00	308	100.00	364	100.00

Even in the district of Kashan, situated on the Yangtze delta and along the Shanghai-Hangchow Railway, where in the last ten years no famine has occurred, the general tendency regarding the use of labour animals is similar to that in Hoyang.

LABOUR ANIMALS IN SHUN-KEN VILLAGE, KASHAN, CHEKIANG¹

<i>Families</i>	1933		1928		1923	
	<i>No.</i>	<i>Per cent.</i>	<i>No.</i>	<i>Per cent.</i>	<i>No.</i>	<i>Per cent.</i>
With no labour animal .	33	38.37	20	26.32	15	18.75
2 or 3 jointly owning 1 animal	7	8.14	10	13.16	12	15.00
With 1 and more than 1 animal	46	53.49	46	60.52	53	66.25
Total	86	100.00	76	100.00	80	100.00

Take another place on another railway line: conditions are not any better. In the villages of Hsuchow (Kiangsu), a district along the Tientsin-Pukow Railway, it was reported in 1932 that three or more peasant families have to use one single labour animal, five families

¹ Investigation done by Ku Tseng-yi in February 1933.

have to use jointly one plough, and six to nine families have to use one cart in common. Among the existing animals, many are too old for their work. In recent years very few new carts have been added. Both animals and implements for agriculture are rapidly reducing in number. Peasants who do not possess labour animals often use them by paying a labour rent. For every mow of land cultivated by a leased labour animal, the peasant has to work three days for the owner of that animal.¹ The high rent of labour animals reflects upon their scarcity. In 1927 poor peasants in the eastern part of Hupeh had to pay as much rent-in-kind for an ox or a cow as for one mow of land of medium grade.² Since then the labour animals in Hupeh must have been greatly reduced. The village families of Tsing-Sui-Hu (Yingcheng) who possessed no labour animals at all were only 8 per cent. in 1923, 35 per cent. in 1928; but at present (1933) fully half of the rural community is in need of labour animals.

Within the last five years, prices for labour animals in Kwangsi and Kwangtung have been doubled and trebled. General Ho Chien, Chairman of the Hunan Provincial Government, issued a general order recently to regulate cow slaughter, in which he said, 'the cows become increasingly costly in Hunan; even several peasant families draining all their financial resources cannot purchase jointly a labour animal. Hence fields are turning into waste, production is quickly falling off.'³

Indeed, horses, asses, buffaloes, cows, donkeys, and mules are all being reduced in China, by drowning as in the 1931 Yangtze flood, by disease as in Kwangtung and Kwangsi at present, and everywhere throughout China, by the sale of animals at a very low price. This sale has been either because no fodder is left to feed the animals, or because money is needed to support the family.

The recent drastic drop in grain prices has further impoverished the poor peasants, thereby making it still further impossible for a vast majority of them to buy ordinary fertilizers. Thus the fertilizer market, such as in southern Anhwei at present, is rapidly declining.⁴ Poverty has decreased the size of peasants' means of production, and thereby has narrowed the economic basis of reproduction.

Deprived of the necessary labour animals, implements, and fertilizers, the poor peasants in China are forced to give up their tiny patch of land, the chief means of their production. Paoting may be a specimen to illustrate the proletarianization of Chinese peasants.

¹ Investigation done by Hsueh Mu-chiao in November 1932.

² *Chinese Economic Journal*, vol. i, No. 2, Feb. 1927, Peking, published by the Chinese Government Bureau of Economic Information, p. 170.

³ *Hunan Kuo Min Ju Pao*, Changsha, Feb. 27, 1933.

⁴ *Hweichow Ju Pao*, Hweichow, Apr. 25, 1933.

LAND PROPERTY OF PAOTING PEASANTS

(10 representative villages, June 1927-June 1930)

Year	<i>Middle Peasants</i>			<i>Poor and Hired Peasants</i>		
	<i>No. of Families</i>	<i>Land (Mow)</i>	<i>Index No.</i>	<i>No. of Families</i>	<i>Land (Mow)</i>	<i>Index No.</i>
1927 . .	343	8,066.84	100.0	969	6,862.89	100.0
1929 . .	343	8,041.37	99.7	969	6,444.50	93.9
1930 . .	343	7,995.32	99.1	969	6,348.11	92.5

The poor and hired peasants lose their land more quickly than the middle peasants. Within the three years from June 1927 to June 1930 they had mortgaged and sold four times more land than they had acquired during the same period. That is to say, the land mortgaged in and purchased by them was only 24 per cent. of the land mortgaged out and sold by them. In June 1927 these poor peasants and hired peasants had land totalling 6,862.89 mow. By June 1930 164.29 mow, or 2.39 per cent., had been acquired through mortgage and purchase; but at the same time 679.07 mow, or 9.89 per cent., had been lost through mortgage and sale. The net loss in three years was 514.78 mow. Considering that the grain prices in those years were rather good, and that they have fallen off recently, we may say that, according to the present rate of proletarianization, the Paoting poor and hired peasants will have to give up all their land possessions in at most forty years.

The rapid falling off of prices of agricultural products, the extreme uncertainty of trade conditions, the heavy and incessant taxation, the high pressure of usury, all in all, have brought about a general standstill of capital circulation and have created a slump in the land market. Not only the middle and the poor and the hired peasants have to sell their land, but also many rich peasants and many landlords desire to get rid of their land, in order to secure cash and to lighten their burden.

Almost everywhere in China the price of agricultural land is falling off. The price in Foochow this spring (1933) was 33 per cent. less than the price in 1929; in Yungkang, Chekiang, 40 per cent.; in Yencheng, Kiangsu, 70 per cent.; in Fuku, Shensi, where there is no famine, 50-81 per cent.; and in Yangyuan, Charhar, 60 per cent.¹ Within the past four years, land prices in several districts of Hopei have fallen 33-75 per cent.

¹ Fukien *Min Kuo Ju Pao*, Jan. 17, 1933; letter from Hsu Chao-yang of Yungkang, Apr. 24, 1933; Shanghai *Chinese Evening Post*, Feb. 25, 1933; *Sian Min Kuo Ju Pao*, Dec. 27, 1932; *Ta Kun Pao*, Tientsin, Mar. 14, 1933.

AVERAGE LAND PRICES PER MOW IN HOPEI DISTRICTS¹
(1929-33)

<i>Districts</i>	<i>Prices (Yuan)</i>		<i>Index Nos. (1929 as the Base)</i>	
	1929	1933	1929	1933
Chaohsien . . .	90	60	100	67
Yintang . . .	150	100	100	67
Nanho . . .	100	60	100	60
Ku-an . . .	50	20	100	40
Tsinhsien . . .	100	40	100	40
Solu . . .	100	30	100	30
Paoting . . .	80	20	100	25

Land is getting cheaper and cheaper, yet waste land in China is increasing in area, and landless peasants are growing in number. There are at least 2,000,000 soldiers in China, a majority of whom are poor peasants who want land for cultivation. In normal years there has been an annual peasant emigration of 150,000 to 180,000 towards the provinces north and north-east of the Great Wall, which emigration is now being checked by the recent military operations. Furthermore, the world economic crisis since 1929 has compelled 200,000 to 250,000 Chinese labourers abroad to return to their homeland. At least 60,000,000 are unemployed in China; meantime the agricultural land is being concentrated in the hands of new, powerful, big landlords who alone can take advantage of the fall in price. The degree of land concentration is even greater in provinces where the population is thinner and the land is less cultivated. Such a contrast between land owning and land using is the kernel of the present agrarian problem in China.

¹ Letters from the Provincial Agricultural College of Hopei, Paoting, and other letters from Hopei, March to April 1933.

DOCUMENT III

RURAL INDUSTRIES IN CHINA¹

H. D. FONG, PH.D.

Research Director, Nankai Institute of Economics, Nankai University, Tientsin

RURAL INDUSTRIES CLASSIFIED

INDUSTRY, in its broadest sense, is identical with the economic activity of mankind—the effort to gratify human wants, either material or non-material—and has customarily been classified into three groups, namely, primary industries, secondary industries, personal and professional services. Primary industries may be extractive, such as hunting, fishing, grazing, lumbering, and mining; they may be genetic, such as agriculture and fish culture. Secondary industries may be manufacturing and constructive, such as weaving, steel making, engineering, building, and road building; they may be commercial, such as transport and communication, merchandising, warehousing, banking and insurance. Personal and professional services, finally, include healing, teaching, protecting, inspiring, governing, amusing, &c.²

Rural industries, broadly speaking, include all types of industries in rural districts, of which the most important is, of course, agriculture. However, the definition of a rural district is chiefly determined by the size of population. Thus, a rural district in the United Kingdom has a population of 1,000 or below, in France or Germany one of less than 2,000, and in the United States one of less than 2,500. In that way, the rural population occupies 20·7 per cent. of the total population in England and Wales (1921), 35·6 per cent. in Germany (1925), 48·6 per cent. in the United States (1920), and 53·6 per cent. in France (1921).³ The definition of a rural district according to the size of population for one country is, however, not applicable to another whose stage of industrial development is yet in a lower stage. In Japan, for instance, the districts with a population of 2,000 or less have a total population occupying only 6·5 per cent. of the national population.⁴ If the criterion of a rural district for France or Germany were applied to Japan, then that country, which is distinctly less industrialized or urbanized than either France or Germany, appears to have a much smaller proportion of rural population.

¹ Slightly abridged.

² Bogart, Ernest L., and Landon, Charles E., *Modern Industry*, New York, 1927, p. 214.

³ Birnie, A., *Economic History of Europe, 1760–1930*, London, 1931, p. 278; *Statistical Abstract of the United States, 1930*, p. 46; Carr-Saunders, A. M., and Jones, D. C., *A Survey of the Social Structure of England and Wales, 1927*, p. 36.

⁴ *Résumé Statistique de l'Empire du Japon, 44^e Année*, Tokyo, 1930, p. 7.

In Japan, therefore, a rural district is considered to have a population of 10,000 or less, and the rural population consequently accounts for 63·4 per cent. of the total population.¹ In India, where a rural district is defined to have a population of 5,000 or less, the rural population in 1921 accounts for 89·8 per cent. of the total population,² which, as compared with that in Japan in the same size of districts (44·21 per cent.) is about twice as high.

In China the absence of a modern census precludes the possibility of arriving at an exact determination of the rural population. Some rough idea of the proportion of rural population, however, may be gained from an analysis of the occupational distribution of population in China. According to Lieu and Chen, the agrarian population in China is estimated at 345,780,000, which is 71 per cent. of the total population of 485,508,000 (Chinese Post Office estimate in 1926). This percentage, which corresponds closely with that estimated by the Bureau of Statistics of the Legislative Yuan in 1930, 74·50 per cent.,³ is very much lower than that for the industrialized and semi-industrialized nations of the world to-day, namely, 6·8 for England and Wales (1921), 19·1 for Belgium (1920), 21·9 for the United States (1930), 30·5 for Germany (1925), 38·3 for France (1926), 53·1 for Japan (1920), and 56·1 for Italy, but is close to that for India (72·3 per cent. in 1921) and actually lower than that for the U.S.S.R. (86·7 per cent. in 1926).⁴

It goes without saying that agriculture constitutes the principal occupation in rural districts. In the countries mentioned above, from one-fifteenth to five-sixths of the rural population are engaged in agriculture. The more industrialized a country is, the smaller is the percentage of rural population engaged in agriculture. Thus England, the most highly industrialized nation in the world, has 20·7 per cent. of the total population in the rural districts, but only 6·8 per cent. of the total population engaged in agriculture. On the other hand, India, a very poorly industrialized nation, has 89·8 per cent. of the total population in the rural districts, and 72·3 per cent. engaged in agriculture.

Next to agriculture, the rural industries may include as many branches as industries can be defined in the broadest sense. It is hard to tell or even to estimate the relative importance of the non-agricultural indus-

¹ *Political and Economic Annual of Japan, 1920-30*, Tokyo Institute of Politics and Economics, Tokyo, 1931, p. 261.

² Nurain, Brij, *Indian Economic Life*, Lahore, 1929, p. 343.

³ Statistics of farm land in China, in *Chinese Economic Journal*, March 1928; *Statistical Monthly*, Jan.-Feb. issue, 1932; *Nankai Weekly Statistical Service*, Mar. 17, 1931; Apr. 22, 1932.

⁴ League of Nations, *Statistical Yearbook, 1931-2*, pp. 44-5; *Résumé Statistique de l'Empire du Japon, 44^e Année*, Tokyo, 1930, pp. 10-11; *Statistical Abstract of the United States, 1932*.

TABLE I
PROPORTION OF AGRARIAN AND RURAL POPULATION TO
TOTAL POPULATION IN THE WORLD

<i>Country</i>	<i>Percentage of Rural Population in Total Population</i>	<i>Percentage of Agrarian Population in Total Population</i>
England and Wales . . .	20.7 (1921)	6.8 (1921)
Germany	35.6 (1925)	30.5 (1925)
United States	43.8 (1930)	21.9 (1930)
France	53.6 (1921)	38.3 (1926)
Japan	63.4 (1925)	53.1 (1920)
India	89.8 (1921)	72.3 (1921)
China . . . . .	..	74.5 (1930)
Russia . . . . .	..	86.7 (1926)

tries in rural districts, as no classification of the industries in rural districts has yet been attempted in any official publication. It is only possible, under present circumstances, to confine our definition of rural industries to a narrower sense, namely, to that of rural manufacturing industries. Rural manufacturing industries, in this narrow sense, may be roughly classified into several groups according to the main factors which call into existence the various types of industries. These factors, generally speaking, include local materials, local market, and local supply of labour. The industries owing their existence mainly to local materials include clay products, such as bricks and tiles; food products, such as wine, oil, and flour; timber products, such as agricultural implements; straw, willow, bramble, and mulberry products, such as baskets and plaited wares; textile products, such as cotton, woolen, or silk fabrics. Those owing their existence mainly to local market include the village repairing and manufacturing artisans, such as wheelwrights and carpenters, masons and bricklayers, blacksmiths, dressmakers, and bespoke tailors, &c. Those owing their existence mainly to local supply of labour include hand-loom weaving, knitting, lace-making, &c.¹

The rural manufacturing industries may, however, be further classified from another and even more significant criterion, that of full-time or part-time employment. The seasonal character of agricultural occupation renders this classification very significant, because during the off seasons rural manufacturing industries become the principal dovetailing occupation to the farmers and their family members.

In China the extent of seasonal variation in agricultural occupation

¹ Woods, K. S., *The Rural Industries Round Oxford*, Oxford, 1921, Chap. I.

has been studied for the nine hsien in the six provinces of Anhwei, Chihli (now Hopei), Honan, Shansi, Kiangsu, and Fukien by Professor Buck of the University of Nanking. This study reveals the significant fact that for the seven principal crops—rice, wheat, kaoliang, millet, corn, soybean, and cotton—more than four-fifths of the year's work, 83·7 per cent., is concentrated in the six months from May to October, the remaining 16·3 per cent. of the year's work being left to the other half of the year from November to April. For some of these crops the monthly variation is even greater. During the busiest month 37·3 per cent. of the year's work is concentrated on cotton (August), 35 per cent. on corn (July), 31·3 per cent. on soybeans (September), 29·2 per cent. on wheat (June), 28·1 per cent. on rice (June), 26·3 per cent. on millet (October), and 16·7 per cent. on kaoliang (May). For all the crops grown in the nine hsien in six provinces, more than four-fifths of the year's

TABLE II

NUMBER OF FARMS GROWING 7 IMPORTANT CROPS IN 9 HSIEN,
6 PROVINCES, NORTH AND EAST CENTRAL CHINA, 1922-4

<i>Hsien</i>	<i>Rice</i>	<i>Wheat</i>	<i>Kao- liang</i>	<i>Millet</i>	<i>Corn</i>	<i>Soy- bean</i>	<i>Cotton</i>
Anhwei							
Hwaiyuan	124	124	124	124	..	124	124
Suhsien	..	286	286	286	..	286	286
Chihli							
Pingsiang	..	152	152	152	..	152	..
Yenshan	..	133	133	133	133	..	..
Honan							
Sincheng	..	144	144	144	144	144	..
Shansi							
Wutai	..	226	226	226	..	..	..
Fukien							
Lienkiang	161	..	..	..	..	..	..
Kiangsu							
Kiangning	217	217	..	..	217	217	217
Wuchin	300	300	..	..	..	300	..
Total	802	1,582	1,065	1,065	494	1,223	627

work, 85·0 per cent., is concentrated in the six months from May to October, the remaining 15·0 per cent. of the year's work being left to the other half of the year from November to April. The maximum monthly concentration for all the crops in some hsien is even greater, being 31·4

per cent. in Kiangning, Kiangsu (June), 30.5 per cent. in Wutai, Shansi (October), 29.4 per cent. in Sincheng, Honan (June), 27.5 per cent. in Wuchin, Kiangsu (October), 25.3 per cent. in Hwaiyuan, Anhwei (June), 20 per cent. in Pingsiang, Chihli (August), 19.7 per cent. in Suhsien, Anhwei (June), 19.5 per cent. in Yenshan, Chihli (August), and 16.8 per cent. in Lienkiang, Fukien (June).¹

The seasonal factor in Chinese agriculture is the more significant when one considers the small amount of man labour performed on a Chinese farm during the year. According to Professor Buck's study of the farm economy in North and East Central China, 'man-work units vary from 112 on farms in the smallest-size group to 519 on farms in the largest-size group. The median shows an average per farm of 190 man-work units, and this is performed by an average of two man-equivalents per farm. When one considers that out of the total number of days in the year only this small amount of productive work is done, it becomes apparent that there are the equivalent of several idle months each year for each farm operator and each family farm labourer. While there is some other work to be done, of course, and equally of course there are some rainy days and some holidays to be allowed for, it is nevertheless evident that these could scarcely account for only about one-fourth of the year being utilized directly upon productive enterprises.'²

PLACE OF RURAL INDUSTRIES IN NATIONAL ECONOMY

The manufacturing industries, which before the days of the Industrial Revolution were as a rule carried on in rural districts, have since then migrated into the towns in most of the Western nations, such as the United Kingdom, Germany, France, Belgium, and the United States, and have there developed as factory, not as home or workshop, industries.³ The social and economic changes over which the inventors and sponsors of factory systems have pondered but little have engaged the best thoughts of economists and statesmen alike in many countries.⁴

Lately, rural manufacturing industries have attracted a great deal of attention in connexion with problems of development and resettlement of rural areas in over-industrialized countries, such as the United Kingdom. Accordingly, an inquiry into the condition of rural industries in the neighbourhood of Oxford was set on foot by the Agricultural Economics Research Institute at Oxford, at the suggestion of the

¹ Buck, J. Lossing, *Chinese Farm Economy*, Shanghai, 1930, pp. 238-44.

² *Ibid.*, p. 231.

³ Cooke-Taylor, as quoted in Fong, H. D., *Triumph of Factory System in England*, Tientsin, Nankai Institute of Economics, 1930, p. 22.

⁴ See, for example, Kropotkin, Prince P., *Fields, Factories and Workshops*, new, revised, and enlarged edition, London, 1912, p. 417, and pp. 24-5.

In India, where 89·8 per cent. of the total population is rural and 72·3 per cent. of the population agrarian, it is reported that 'by far the greater number of cultivators have at least from two to four months' absolute leisure in the year'. In such a country, where rural industries are expected to supplement agriculture to a quite considerable extent, it is amazing to note the conclusion of the members of the Royal Commission on Agriculture in 1928 that 'even with the aid of new ideas and assistance in training and marketing, the contribution which rural industries can make, in reducing the heavy pressure on the land, is infinitesimal; and in the nature of things they cannot, as a rule, hope for ever to survive the increasing competition of organized industry. In some cases, we are afraid that an altogether exaggerated importance is attached to their development, whereas sound reflection would show that their possible expansion is strictly limited.' This view, however, is not wholly sustainable, largely because of the Commissioners' stress that 'the chief solution of the problems of the cultivator is intensification or diversification of his agriculture', as well as of their over-confidence in the success of the 'increasing competition of organized industry'.¹ Besides, we must not forget the Commissioners' statement that 'the hand-loom industry of India is still of great importance in the national economy and has, up to the present, shown remarkable vitality in the face of competition with factory products'.²

THE DECLINE OF RURAL INDUSTRIES IN CHINA

Despite recent efforts made in various Western countries for the purpose of reviving the rural industries,³ it is plain that with the progress in industrial revolution rural industries have disappeared one after the other.

'The concentration of demand in large manufacturing and trading centres rendered it uneconomical to supply the demand by means of small-scale production under the craftsman system. The colossal tasks for industry, such as engineering and shipbuilding, were important factors in the rapid disappearance of the small craftsman, for technical as well as economic reasons. The uniformity of output, which became a prerequisite to such manufactures as tool-making, was only possible under large-scale and factory production; and the change in the character of consumer's demand for ready-made but inexpensive goods hastened the introduction of the factory system.'⁴

An abstract of the report may be found in an unsigned article on the 'Small-scale rural industries in northern Europe and in Switzerland', in *International Labour Review*, May 1929, pp. 704-8.

¹ *Report of the Royal Commission on Agriculture in India*, 1928, Cmd. 3132, pp. 566, 575.

² *Ibid.*, pp. 569, 576.

³ I have freely used the briefer term 'rural industries' in place of the 'rural manufacturing industries' in this paper.

⁴ Fong, *op. cit.*, p. 10.

Although this conclusion with regard to the industrial conditions in England about a century ago cannot be applied with equal force to a still medieval country like China, yet the disappearance of rural industries in China under the modern industrializing influence of the Western trading nations cannot be denied. No further proof need be cited except a brief review of China's three basic rural industries, cotton spinning, silk reeling, and tea preparing. The decline of native cotton spinning is most clearly shown by the growth in the import of foreign-spun yarn. Machine-spun yarn, which was first imported from England to the extent of 5,000 lb. or 38 piculs in 1821, increased rapidly to 33,507 piculs in 1867, the first year for which import statistics were published by the Chinese Maritime Customs.¹ Since that year the growth in the import

TABLE V
NET IMPORT OF RAW COTTON, COTTON YARN, AND THREAD
INTO CHINA, 1867-1932
(1913 = 100)

Year	<i>Cotton Yarn and Thread</i>	
	<i>Piculs</i>	<i>Index</i>
1867	33,507	1.24
1872	49,809	1.84
1877	116,163	4.30
1882	184,940	6.84
1887	593,728	21.97
1892	1,305,572	48.30
1897	1,573,116	58.20
1902	2,452,864	90.75
1907	2,281,657	84.42
1912	2,312,528	85.56
1917	2,102,335	77.78
1922	1,242,038	45.95
1927	304,272	11.26
1932	102,806	3.80

of foreign yarn was not interrupted until the rise of native cotton mills in China around the 'nineties. The small import of 33,507 piculs in 1867, representing already an increase about 900-fold over that in 1821, was raised to 131,525 piculs in 1869, 593,728 piculs in 1887, and 2,748,644 piculs in 1899—an 82-fold increase over the figure for 1867. After 1899—the peak year during the whole period from 1867 to 1932—there has

¹ Fong, *Cotton Industry and Trade in China*, vol. i, p. 245, Nankai Institute of Economics, Tientsin, 1932.

been an almost continuous decline in cotton-yarn import, until the lowest point of 74,565 piculs is touched in 1931. This decline in cotton-yarn import, however, must not be interpreted to indicate a revival of hand-spinning, but rather a substitution of imported by native yarn spun in modern mills. The total spindleage in Chinese cotton mills, 114,712 during the first year of establishment in 1890, has been raised about 40-fold, to 4,223,956 in 1930. Indeed, under the competitive influence, first of foreign machine-spun yarn and then of native machine-spun yarn, the hand-spun yarn in China has almost been wiped out of

TABLE VI
COTTON SPINDLES AND LOOMS IN CHINA, 1890-1930
(1913 = 100)

Year	Spindles		Looms	
	Number	Index	Number	Index
1890	114,712	11·67	1,612	17·17
1895	316,488	32·20	3,827	40·76
1900	637,976	64·91	8,875	94·53
1905	706,056	71·84	8,875	94·53
1910	922,012	93·81	9,389	100·00
1915	1,148,332	116·84	10,079	107·35
1920	2,052,624	208·85	16,993	180·99
1925	4,046,100	411·69	29,272	311·77
1930	4,223,956	429·78	29,272	311·77

existence, and the hand-spinning of cotton yarn, formerly a widespread domestic industry all over the rural districts, has now become almost extinct. We may, indeed, repeat the same complaint that was launched against the rise of cotton mills in England a century ago, in 1833:

'Where is the distaff and spindle, . . . where the employment for women and children, formerly carrying comfort and independence to the home of every cottager?—all absorbed by machinery, or sacrificed to the cry of "cheap".'¹

The decline of silk hand-reeling is no less remarkable than that of cotton hand-spinning. In 1895, the first year for which the statistics on the export of machine-reeled silk, that is, steam-filature silk, were kept by the Chinese Maritime Customs, hand-reeled silk of the white and yellow variety still occupied 67,622 piculs, or 71·4 per cent. of the total export of white and yellow silk. Since that year, however, the propor-

¹ Burrows on 'Machinery', in *The Advocate, or, Artizans' and Labourers' Friend*, 1833 No. 7, p. 55.

tion that the steam-filature silk export occupied in the total silk export rose continuously to 45.1 per cent. in 1900, 58.1 per cent. in 1910, 67.9 per cent. in 1920, and 83.1 per cent. in 1930. In 1931 the peak was reached, the proportion for the steam-filature silk export in the total silk export having attained to the highest point of 86.1 per cent. during the whole period from 1895 to 1932. The rise of the proportion of steam-filature silk in total silk export from 28.6 per cent. in 1895 to 86.1 per cent. in 1931 means the decline of the proportion of hand-reeled silk from 71.4 per cent. in 1895 to 13.9 per cent. in 1931, a decline of four-fifths in a period of thirty-seven years!

TABLE VII
CHINA'S EXPORT OF RAW SILK, 1897-1932

Year	White and Yellow Silk			White, Yellow, and Wild Silk		
	Steam Filature		Total	Steam Filature		Total
	Piculs	Per cent.	Piculs	Piculs	Per cent.	Piculs
1897	41,485	42.5	97,564			
1902	50,557	50.3	100,519			
1907	50,296	54.5	92,317			
1912	59,157	48.5	121,877	74,019	46.8	158,038
1917	73,103	67.9	107,584	87,413	69.5	125,820
1922	89,248	74.5	119,737	110,040	76.7	143,478
1927	101,889	76.8	132,656	126,582	80.3	157,580
1932	45,896	70.4	65,195	57,334	74.8	76,670

Tea preparing, another widespread industry in the rural districts, has shown an equally rapid decline. Taking again the export figures as an index of the decline, 1886—the year of highest tea export during the whole period from 1866 to 1932—serves as a good starting-point. In 1886, there was a total tea export of 2,217,295 piculs, which was, however, successively reduced in 1890 to 1,665,396 piculs or 75.1 per cent. of the total tea export for 1886, and to 1,384,324 piculs or 62.4 per cent. in 1900. A further decline to 1,157,993 piculs in 1901, the year after the Boxer trouble, brought back in the following year a revival to 1,519,211 piculs, at which figure the export fluctuated but slightly until the peak of 1,782,353 piculs was reached in 1915. After 1915 there was a rapid decline, until the lowest point of 305,906 piculs during the whole period from 1866 to 1932 was reached in 1920. The recovery after 1920, reaching the peak of 947,730 piculs in 1929, has been lost gradually since then. In 1932, the latest year for which the statistics are now available,

the total tea export was reduced to 653,556 piculs or 29.5 per cent. of that for the peak year of 1886—2,217,295 piculs.

TABLE VIII
CHINA'S TEA EXPORT TO FOREIGN COUNTRIES, 1867-1932
(1886 = 100)

<i>Year</i>	<i>Piculs</i>	<i>Index</i>
1866	1,192,138	53.8
1867	1,330,974	60.0
1872	1,774,663	80.0
1877	1,909,700	86.1
1882	2,017,151	91.0
1887	2,153,037	97.1
1892	1,622,681	73.2
1897	1,532,158	69.1
1902	1,519,211	68.5
1907	1,610,125	72.6
1912	1,481,700	66.8
1917	1,125,535	50.8
1922	576,073	26.0
1927	872,176	39.3
1932	653,556	29.5

Besides the three widespread industries of cotton spinning, silk reeling, and tea preparing, other rural industries, although carried on to a smaller extent, have also tended to decline in recent years. The rapid increase in the import of paper, for instance, indicates the decline in the production of native paper, even with due allowance for an increase in the demand from new sources, such as newspapers. China's import of paper amounted only to 217,726 piculs in 1903, but was quickly raised to 549,030 piculs in 1910, 1,026,511 piculs in 1920, 1,992,093 piculs in 1930, and 2,075,283 piculs in 1932, the peak year. The last figure, it may be noted, represented an increase of ten times over that for 1903. What is said of paper applies also to flour. Native flour milling, formerly a rural industry, has declined in the face of machine-milled flour from home and foreign mills. With a few exceptions, the import of flour has been on the increase since 1887. In that year the import amounted to Hk. Tls. 564,214, but since then it has been raised to Hk. Tls. 775,548 in 1890, Hk. Tls. 3,329,868 in 1900, and Hk. Tls. 3,444,407 in 1910, reduced somewhat to Hk. Tls. 2,330,215 in 1920, but raised rapidly to Hk. Tls. 31,926,220 in 1930. In 1932 it stayed at Hk. Tls. 36,176,127—a figure representing a 64-fold increase over that for 1887. In both flour and

paper, especially flour, the native industry in the rural districts has to meet with the competition not only from the imports, but also from home production. A third industry, the pressing of rape and other vegetable seeds into oil for domestic lighting purposes, has been almost wholly replaced by the kerosene-oil imported chiefly from the United States. The import, which in 1886 amounted to 23,038,101 gallons, was

TABLE IX
CHINA'S IMPORT OF PAPER, FLOUR, AND KEROSENE-OIL,
1867-1932

Year	<i>Paper</i>		<i>Flour</i>		<i>Kerosene-oil</i>	
	<i>Piculs</i> ¹	<i>Hk. Tls.</i>	<i>Piculs</i>	<i>Hk. Tls.</i>	<i>Gallons</i>	<i>Hk. Tls.</i>
1870	..	..	..	..	..	140,080
1880	..	..	..	564,214 ²	..	413,612
1890	..	..	..	775,548	30,828,724	4,092,874
1900	217,726 ³	2,584,437 ³	..	3,329,868	83,580,024	13,955,528
1910	549,030	5,486,764	740,841	3,444,407	163,526,880	22,358,846
1920	1,026,511	14,159,186	511,021	2,330,215	189,588,540	54,318,290
1930	1,992,093	37,384,275	5,413,353	31,926,220	185,608,596	54,864,546
1931	2,042,339	45,404,637	5,204,788	30,920,302	171,140,380	64,549,371
1932	2,075,283	34,445,353	6,705,837	36,176,127	145,918,794	60,439,975

¹ Not including a small part of paper for which only value, with no quantity is given.

² 1887 ³ 1903.

raised successively to 30,828,724 gallons in 1890, 83,580,024 gallons in 1900, 163,526,880 gallons in 1910, 189,588,540 gallons in 1920—an eight-fold increase over that in 1886 in a period of only thirty-five years. Since 1920 there has been a slight fall to 185,608,596 gallons in 1930, 171,140,380 gallons in 1931, and 145,918,794 gallons in 1932.

The above six industries, namely, cotton spinning, silk reeling, tea preparing, paper making, flour milling, and oil pressing, have either declined considerably or disappeared entirely as rural industries. Meantime, foreign productions have taken their place either in China or in foreign countries. In China, four imports, namely, cotton-yarn, paper, flour, and kerosene-oil, have to a varying extent replaced the native products as substitutes, although in cotton-yarn and flour China, under the industrializing influence of the West, has been able to supply a major portion of the home demand with home production. Silk and tea, the two items of export which as late as 1890 still supplied over one-half of China's total export to foreign countries, have been replaced in foreign markets by productions of silk from Japan, and of tea from India, Ceylon, the Dutch East Indies, and Japan. To-day, these two exports count only as one-eighth of the total export (12.4 per cent. in 1932).

In recent years other export industries in the rural districts, in addition to silk and tea, have also shown a tendency towards a decline. As shown in Table X, of the fourteen groups of products from China's principal rural industries exported during the six-year period from 1927 to 1932, as many as eleven groups have shown a decline, these groups being, in order of relative importance of export value in 1932, silk piece goods and pongees, wood-oil, paper (chiefly joss paper), straw braid, mats and mattings, vermicelli and macaroni, lace and trimmings, firecrackers and fireworks, nankeens, grass-cloth, and *samshu* (Chinese wine). These eleven groups, with a total export value of Hk. Tls. 80,899,682 in 1927, had an export value of only Hk. Tls. 49,870,158 in 1932—a decrease of 38.4 per cent. Only three other groups, namely, embroidery, drawn threadwork, and hair-nets, have shown an increase, from Hk. Tls. 4,101,500 to Hk. Tls. 12,668,818 during the same period—an increase of 309 per cent.

PRESENT STATUS OF RURAL INDUSTRIES IN CHINA

Cotton Weaving.

Among the rural industries that still persist in China to-day, the most important is undoubtedly hand-loom weaving of cotton, silk, ramie, and other fabrics. In respect of cotton hand-loom weaving, China is the only important nation in the Orient, and for that matter, in the world, where hand-loom weaving still predominates over power-loom weaving. In 1925 there were in Japan 238,999 cotton power-looms as against 126,360 cotton hand-looms, while in India in 1926 the cotton cloth production amounted to 1,950 million yards from power-looms as against 1,160 million yards from hand-looms. In China the proportion of power weaving to hand weaving, in terms of yarn consumption, is only one to four. As shown in Table XI, of a total yarn consumption of 961 million pounds for China in 1930, the power-looms consumed 207 million pounds, leaving 754 million pounds, or four-fifths, to the hand-looms.¹

Cotton hand-loom weaving in China is carried on partly in urban districts, but chiefly in rural districts. In the latter it is a dovetailing occupation, in which almost every member in the farmer's family is engaged in one way or the other during off seasons. Wherever the cloth produced is barely sufficient for home consumption, the industry is *par excellence* in the household stage. But oftentimes the farmers work for market production in addition to meeting their own needs, in which case the type of organization is no less different from that existing elsewhere during the pre-industrial days. An excellent illustration is

¹ Fong, *Cotton Industry and Trade in China*, vol. i, p. 230.

TABLE X—CHINA'S EXPORT OF PRODUCTS OF PRINCIPAL RURAL INDUSTRIES, 1927-32

	1932	1931	1930	1929	1928	1927
Silk piece goods and pongees	18,478,940	24,412,445	19,564,158	21,032,898	23,903,778	25,170,984
Silk piece goods	12,235,992	11,357,734	11,442,517	13,147,808	16,679,891	18,115,194
Silk pongees	6,242,948	13,054,711	8,121,641	7,885,090	7,223,887	7,055,740
Honan	1,479,913	4,870,880	2,973,080	1,912,712	3,301,882	3,533,040
Shantung	3,754,754	6,375,829	3,790,801	4,311,290	2,900,373	3,231,328
Other	1,008,281	1,808,002	1,357,070	1,058,088	1,021,632	290,372
Nankens	1,259,938	3,621,703	2,677,644	2,742,758	2,816,026	2,907,310
Grass-cloth	1,102,477	4,943,925	2,391,262	4,232,100	5,794,844	4,354,714
Coarse	209,553	724,097	264,032	492,048	527,052	445,204
Fine	892,934	4,219,828	2,126,330	3,740,052	5,267,792	4,909,540
Embroidery	3,114,636	9,012,691	4,122,013	3,457,482	2,402,286	1,815,850
Cotton and linen	3,737,728	3,737,728	4,122,013	3,457,482	2,402,286	1,815,850
Silk	3,032,166	5,234,963	3,196,062	2,705,697	3,132,355	4,694,127
Lace and trimmings	2,208,124	3,340,265	3,740,194	2,562,880	2,169,333	1,008,202
Drawn thread work	5,162,114	4,864,388	1,313,652	1,313,345	1,021,341	1,277,448
Hair-nets	1,359,902	995,634	1,338,923	2,151,805	2,748,398	2,612,092
Straw braid	2,581,302	1,504,740	1,538,923	1,335,158	1,498,622	1,130,570
Mottled	1,273,153	784,091	989,550	1,385,158	1,498,622	1,130,570
White	1,308,149	720,649	549,373	813,647	1,249,776	1,481,522
Mats and mattings	2,291,209	7,248,649	4,907,016	3,871,831	3,080,877	3,754,097
Straw and rush mats	1,662,627	5,805,417	2,046,976	1,944,561	1,808,804	2,162,786
Other mats	155,017	879,708	1,547,183	1,317,276	1,240,924	874,554
Mattings	473,565	563,404	712,857	609,994	632,148	717,957
Samsu ¹	297,947	408,062	651,362	800,344	837,848	993,842
Samsu medicated	169,945	246,473	295,257	297,173	249,188	250,932
Samsu medicated	128,062	222,189	356,105	563,171	588,760	742,890
Vernicelli and macaroui	2,253,278	3,138,652	3,974,630	4,223,124	4,313,378	5,378,633
Paper	3,119,155	3,643,835	4,927,249	4,803,526	5,103,884	5,263,235
Joss	970,066	1,518,949	2,393,132	2,237,957	2,237,423	2,182,679
Other	2,148,480	2,124,906	2,334,117	2,375,539	2,866,461	3,080,556
Firecrackers and fireworks	1,411,785	2,091,883	3,159,166	3,885,614	3,304,967	3,198,921
Wood-oil	14,806,003	20,416,102	30,546,872	23,519,702	23,302,221	21,970,947
Total for 14 groups	62,538,976	89,903,594	86,709,603	81,368,106	84,592,136	85,001,182
Minus groups 4, 6, 7	12,668,818	14,872,713	9,175,239	7,333,707	5,592,960	4,101,500
Total for 11 groups	49,870,158	75,030,881	77,534,344	74,033,399	78,999,176	80,899,682
Silk, non-flature	7,199,162	6,518,901	11,024,729	15,742,714	14,606,213	17,983,859
Tea	24,761,556	33,253,158	26,283,923	41,252,422	37,133,853	31,618,949
Total for 13 groups	81,830,681	114,892,940	114,842,687	131,023,541	130,739,242	130,502,490

¹ Means 'thrice distilled' wine, generally produced in North China, especially Manchuria, with kaoliang as the chief source of raw material.

furnished by the farmers in the districts around Kaoyang, of which more will be said later (see below, p. 337).

TABLE XI
COTTON YARN AND THREAD STATISTICS FOR CHINA,
1913 AND 1930
(in pounds)

	1913		1930	
	Quantity	Per cent.	Quantity	Per cent.
Home production .	200,000,000	35·84	982,070,800	102·22
Import . . .	358,000,000	64·16	22,616,000	2·35
Minus export . .	..	..	43,987,064	4·57
Total consumption	558,000,000	100·00	960,699,736	100·00
For power-looms	15,000,000	2·69	206,913,532	21·54
For hand-looms	543,000,000	97·31	753,786,204	78·46

Silk Weaving.

In China silk weaving is carried on exclusively by hand-looms, and silk hand-loom weaving constitutes one of the leading rural industries in South and Central China, and even in northern provinces such as Honan and Shantung. The extent of this industry can be gauged by the statistics of silk production. According to the *Encyclopaedia Britannica*, China's home consumption of raw silk is estimated as at least 55 per cent. of her total production, which in 1925 amounted to 9,924,000 kg., or roughly one-sixth of the world production.¹ Of this total consumption of 9,924,000 kg. for silk weaving, 31,295 piculs or 1,838,000 kg. were again exported to foreign countries in the form of silk piece goods and silk pongees. This export which, as shown in Table XII, has become rather stationary in recent years because of competition from rayon fabrics, represents an eightfold increase over that in 1867 (4,008 piculs), a fourfold increase over that in 1880 (8,390 piculs), and a twofold increase over that in 1892 (15,868 piculs).

As an illustration of silk hand-loom weaving conditions we may take the town of Shentseh, in the district of Wukiang, on the boundary line between Kiangsu and Chekiang. The town is well known as a producer of silk textiles, but there is not one silk-weaving mill, nor even one weaver in the town. The supply comes from the neighbouring villages for which the town is only a collecting and distributing centre. The

¹ Fourteenth edition, vol. xx, p. 676.

industry is conducted on a very small scale in the villages surrounding the town where almost all families are silk-weavers. The raw silk is not produced in Shentseh, but is supplied by the raw-silk firms in the town. Looms are bought from small importing firms, also in the town; so are the designs, from the special designers. If the peasants need any money

TABLE XII
EXPORT OF SILK PIECE GOODS FROM CHINA, 1867-1932

<i>Year</i>	<i>Piculs</i>	<i>Hk. Tls.</i>
1867	4,008	2,172,370
1872	5,302	2,607,052
1877	6,460	4,432,121
1882	6,598	3,396,374
1887	14,184	6,723,149
1892	15,868	7,371,850
1897	20,401	10,094,747
1902	20,628	9,651,708
1907	20,496	12,926,152
1912	28,539	16,103,787
1917	30,209	17,229,766
1922	30,946	23,631,284
1927	32,821	25,170,934
1932	22,229	18,478,940

to tide over the period between the purchase of raw materials and the sale of their products, the brokers and commission houses in town advance them the money. Their products, when finished, are sold directly through the commission houses, or indirectly through the brokers, to the local wholesale merchants. A silk guild supplies the standard weighing scales on which all transactions are based.¹

Grass-cloth Weaving.

The weaving of grass-cloth is not so important as cotton or silk weaving, although in the provinces where the raw fibre of ramie is produced, the industry becomes an important household occupation. Grass- or ramie-cloth, like cotton and silk cloth, supplies the foreign market as well as the home needs. In a good year like 1928, the export reached 26,623 piculs, valued at Hk. Tls. 5,794,844. The provinces of Kiangsi, Kwangtung, Hunan, Fukien, and Szechuan are famous for the cloth. Considerable quantities are also produced in Kiangsu, and compara-

¹ 'How Chinese towns develop village industries', in *Chinese Economic Journal*, Jan. 1928, p. 87.

tively small quantities in Hupeh, Kwangsi, and Honan. In these provinces, Kiangsi for instance, the cloth is woven by the country lasses in the slack farming season. It is the custom among Kiangsi farmers to teach their girls to weave grass-cloth in autumn. When a girl can handle a distaff or spinning-wheel, she is taught to spin yarn with ramie fibre. The deft fingers of the youngsters produce ramie-yarn sometimes as fine as the cotton yarn of 60 counts. The spinning is usually done in an underground cellar or dug-out, as the yarn is so fine and fragile that it would break too easily if exposed to light and wind. The spinning season covers about three months, from August to November, but even in the season the spinster cannot work every day in the dug-out because of its dampness. The cloth, after being woven, is sold to the dealers in neighbouring cities and market towns. Hankow and Shanghai, however, are the two principal markets of grass-cloth in China, from which a part of the cloth is exported to Korea, Hongkong, Siam, British India, Singapore, Straits, Dutch East Indies, &c.¹

Other Fabric Industries.

Besides the hand-loom weaving of cotton, silk, ramie, and other fabrics, other branches of the textile industry, such as cotton ginning, silk reeling, cotton and woollen spinning, rope and twine making, hosiery knitting, lace making, drawn-thread work, hair-net making, straw plaiting, ribbon, towel and sack-cloth weaving, rush- or reed-mat weaving, &c., can be found in the various parts of rural China. Some of these industries are carried on in small workshops, but most of them are domestic by-employments during the slack farming season. Cotton ginning, which is performed mostly in the primary cotton markets, is by its very nature a workshop industry, since no single farmer produces as much seed cotton as to justify the ownership of a cotton gin. The work, consequently, is often done in rural districts on a wage-work basis. Other industries, such as lace making, drawn-thread work, embroidery, &c., are essentially home industries carried on by female labour. For the purpose of illustration, some of these industries are here briefly discussed.

Silk reeling, with the primitive hand method, which has declined considerably in face of the competition from the modern method employed in steam filatures, is still carried on to some extent in the silk-producing districts. The persistence of this method in Kashing and similar silk-producing centres in Kiangsu and Chekiang provinces, for instance, can be proved by the presence of raw-silk dealers or collectors in these centres. These raw-silk dealers or collectors handle nothing but cottage-reeled silk, which is consumed chiefly in the silk-weaving plants at home

¹ *Chinese Economic Bulletin*, Aug. 22, 1925; Dec. 8, 1928.

for the production of coarse but good fabrics. In Kwangtung, where silk reeling is also partly done by crude native methods, it is said that the silk turned out is not uniform in thickness; its colour is dull. It is used chiefly for weaving crepe and other fabrics for summer wear, and is not desired in foreign markets.¹

Hosiery knitting, which grew to large proportions in the country districts, especially in the South, only during the last ten years, was, unlike cotton spinning or silk reeling, a new industry introduced by means of foreign imports. In Chekiang, for instance, this industry flourishes in various parts around Pinghu, Kashing, Shihmen, and Siashih, located along both sides of the Shanghai-Hangchow-Ningpo Railway. In Pinghu, as in many other knitting districts, the industry is organized under the well-known 'putting out' or 'merchant-employer' system. Here the hosiery establishments were chiefly business firms which performed the twin functions of capitalist and middleman. They provided the capital, purchased the machines, and gave out yarns to the outworkers for knitting on a piece-rate basis. The outworker, in receiving yarns for knitting from the merchant employer, must rent from him a knitting-machine by the payment of a special initiation fee of two dollars and a deposit of six dollars. The special initiation fee was paid once for all, but the deposit could be refunded at the return of the machine. Henceforth, the outworker paid a monthly rent of two dollars per machine so long as he remained in the employment of the merchant employer, the rent being deducted directly from the wages earned during the month. This system obviously entailed excessive gain to the merchant employer, for in a year's time the latter could be refunded for the cost of the machine, which, on the average, did not exceed twenty-five dollars. Whatever expenses he might have to incur for repair and maintenance of the machine amounted to very little. On the other hand, the outworkers, chiefly women and girls, also profited from this system, for previous to the introduction of the industry under the merchant-employer system, women of the poor families had no by-employment but the performance of household duties. The girls, meantime, had not even the necessary household duties to perform but remained idle during most of the time.²

Lace-making, like drawn-thread work and embroidery, is essentially an export industry, which flourishes in such centres as Shanghai (Pootung), Wusih, Chefoo, Swatow, &c. In Chefoo, the lace is made by peasant women in their homes, to the order of contractors who supply the

¹ *Ibid.*, Mar. 20, 1926, pp. 157-8; *Chinese Economic Journal*, July, 1929, p. 601.

² *Chinese Economic Bulletin*, Jan. 2, 1926.

workers with thread and the patterns designed by the contractors in response to the ever-changing popular taste. The contractor obtains thread on credit from the dealers and, after he has collected the finished lace from the makers, sells it to the dealers—his creditors. After paying for the thread and the wages of the makers, the balance is his profit. It is estimated that about 45,000 women are engaged in lace-making of Chefoo, in the surrounding villages.¹ In Wusih, where lace-making was first introduced through a certain girls' school, the arrangement is somewhat different. The netting on which the floral decoration is traced is issued by the company—the merchant employer—to the girl applying for work, together with the thread needed. Each girl is given an account book, on which is entered the quantity of threads or the number of yards of netting. The working girl takes away the materials and keeps the book with her. When she completes her task, the finished product is submitted to the company, which receives that amount which is satisfactory and acknowledges receipt in the account book. Remuneration is calculated according to the yard, and is paid immediately upon the return of the finished product. One-fourth or one-half of the lace finished may first be submitted to the company and the remainder later on, and the company pays only for what is actually made. The companies, which during the most prosperous years of the lace trade numbered approximately 150 but were reduced to 50 in 1926, are chiefly located inside the South Gate of the city, as most of the working girls are in the towns and villages near the South Gate. Each company keeps about ten agents in these places to take charge of distribution and collection. The largest company has a capital of \$10,000 and the smaller ones are capitalized at from \$500 to \$1,000. Besides, these companies have, since 1917, been organized as the Wusih Lace-Makers' Association for the discussion of trade matters.²

Straw plaiting, which supplies both home and foreign demand, is an old industry. In Shansi it has been practised by the peasants for hundreds of years; in Hopei it thrived even in pre-railway days when the braid was exported to the southern provinces as far as Yunnan and Burma. But European demand was not created until the beginning of the present century, when the Germans from Tsingtao started to collect and export straw braid from these regions. This industry, which is characterized by its dependence upon the farm by-product of grain stalk for raw material, can be found in the country-sides all over China, especially in the northern part. In some districts such as Nanlo, Hopei province, there are more people in the district who make their living by

¹ *Chinese Economic Bulletin*, June 16, 1928.

² *Ibid.*, July 17, 1926.

straw-plaiting than by farming, and over fifty Shantung straw-braid merchants have agents in the districts buying and exporting. The plaiting is generally done by women from stalks of kaoliang, wheat, &c., in their spare time, and the braid is sold in bundles of twenty rolls each (a roll measuring 1·8–2·3 feet) to the exporters or their agents at the fairs, by weight.¹

Mat-weaving, another rural industry, also uses local raw materials and in some districts is highly organized. In Hushukwan, Soochow, in the province of Kiangsu, where the best mats are said to be produced, straw mat *hongs* are formed for the collection and distribution of reeds as well as the purchase of finished mats. Representatives of these *hongs* collect the reeds from the farmers in the neighbouring district of Chefang, who are exclusively engaged in the growth of reeds instead of rice. After purchase, coolies arrange the reeds according to length and quality, and bind them in bundles weighing about three catties each. These bundles are then sent to the straw-mat *hongs* in Hushukwan, who in turn sell them to the mat-weavers, whose chief work is to cultivate rice but who weave mats during off seasons. The weavers do not employ workmen or apprentices. The family abode is the workshop; the husband and wife are the workers, and the children the apprentices. In many of the farm-houses, mat-weaving looms can be seen, large families having three to ten looms, and small families keeping only one. Selling methods are different from those employed in the lace and embroidery trades, as in mat-weaving the product is sold by the weavers directly to the straw mat *hongs*, of which there are about twenty at a distance of less than a mile from the railway station. Every morning the weavers convey the mats by native junk to this mat-buying centre. The *hong* employees then quote prices for the mats offered. If the weavers are satisfied with the quotations, transactions are completed and cash is paid. If they are not satisfied, the weavers can go to other *hongs* for sale. But in every case the quotation of the *hong* is final, and there is no bargaining. As the largest *hongs* do a total yearly business of \$30,000 to \$40,000, and the average business of each *hong* is \$15,000, it is estimated that the total mat business of the district amounts to about \$300,000 yearly. The *hongs* are capitalized at from \$5,000 to \$20,000 each. The best season is in April, when customers come to deal with the *hongs* in order to make ready for the summer distribution season. Considerable business is done in May also, but in the autumn very little business is done except in collecting from the weavers the mats in preparation for the next selling season. Wholesale customers are received courteously by the *hongs*,

¹ *Ibid.*, July 12, 1924; Dec. 19, 1925; June 4, 1927.

which supply them with food and lodging. No bargaining is employed in selling, yet there is no fixed price. Prices are offered by the *hongs* in accordance with the quality of the mats and conditions of supply. But a hundred pieces, of almost similar quality and size, have a hundred different prices. Competition is keen, and there is no co-operation in fixing the selling prices between the *hongs* themselves. A guild, however, exists, which is composed of the *hongs* and hold meetings twice a year.¹

Food Products.

A second group of rural industries in China to-day relates to the preparation of food products, which includes rice cleaning, flour milling, vermicelli and macaroni making, brewing, oil pressing, tea preparing, fruit and vegetable preserving, &c. Some of these industries, such as rice and tea, are devoted to market production, while the rest are carried on for both market and household uses.

The making of vermicelli is carried on in rural districts as a home or workshop industry, but in whichever case the industry is a seasonal by-employment to the farmers. The flour from which vermicelli is made is composed of beans or of an admixture of beans, kaoliang, and wheat. In Lungkow, Shantung, from which about 700,000 to 800,000 packages of 160 catties each are exported yearly, vermicelli making is a home or cottage industry. The farmers in the villages make vermicelli during slack seasons, pack it in straw matting, and bring it to Lungkow in mule carts for sale to the dealers, who also import beans from Dairen as raw material for the makers. Farmers bringing vermicelli to a dealer usually take from him a return load of small beans, and sometimes contract with the dealers for small beans by forward orders. Transactions are on credit, and accounts are settled every month. In Suancheng, Anhwei, on the other hand, vermicelli making is a workshop industry, being carried on in small plants operated by wealthy farmers with half a dozen hands. The principal equipment of the plant consists of an oven, a boiler, two earthen vessels containing cold water, and one framework for drying purposes. About 300 plants, all in the villages, are operating in the district. They seldom suspend work except in wet and silkworm raising seasons. In summer and winter the plants also close. The output is sold to local wholesalers for export to neighbouring districts. In Tacheng, Hopei, a more or less similar condition obtains. Most of the bean-flour mills here are, as in Suancheng, temporary establishments, which start operations only after the autumn harvest. The flour turned out by these mills is obtained from 60 per cent. green beans and 40 per cent. kaoliang of the red seed variety. The vermicelli which is made from the flour

¹ *Chinese Economic Bulletin*, Feb. 13, 1926.

supplies principally the local need, though it is also consumed in Tientsin and Koku. The bran left over is used as feed for swine.¹

Wine brewing and distilling, like vermicelli making, is both a home and a workshop industry. In Taihing, Kiangsu, wine brewing and distilling is carried on by almost every farmer, and is chiefly a domestic by-employment. Despite the losses that the industry imposes upon the farmers, at the rate of \$4 to \$5 per kang of spirit distilled, the farmers keep up the industry because of its by-products—the residue of fermented grain which is ideal for feeding and fattening pigs. In Shaohing, Chekiang, on the contrary, the industry becomes a workshop one. Shaohing wine, which is well known throughout the country, is distilled by 700 distillers with a yearly output of 50,000 kang. It extends to the rural districts, Tungpu and Yuanshe being the best-known market towns for wine. Due to excessive taxation, Shaohing wine has, however, shown a rapid decline. In former years the 300,000 kang were valued at \$6,000,000, each kang being equivalent to ten pots or jars of 50 catties then selling at about \$2 per pot. In 1926 the 50,000 kang were valued at \$2,000,000, the local selling price then being \$4 per pot. In Suancheng farmers are engaged in distilling liquor from wheat, barley, kaoliang, and rice; one-third of it is exported to neighbouring towns in wooden casks carried by draft animals. In some parts of the district liquors are distilled from potato and maize, the product being weak and consumed only by the farmers themselves.²

Tea preparing, another rural industry of considerable extent in the old days, still prevails in certain rural districts where the production, not being destined for foreign markets, is carried on with the old hand method by the tea growers themselves. In Chekiang in 1927 it is reported that 'the bulk of the tea turned out by Chekiang growers is green tea, which—especially that produced in south-western Chekiang—is prepared by the crude old method and cannot find a ready market in foreign countries'.³ Indeed, the main cause contributing to the spectacular decline of China's tea market in the world lies in the persistence of the old method of preparation by the small-scale and unenterprising growers.

The manufacture of brick tea, which is carried on chiefly in such collecting and distributing centres as Hankow, Kalgan, &c., offers an interesting example of the employment of farm labour in urban centres. The number of brick-tea factories, which fluctuated from year to year, reached twenty-eight in Kalgan, Kweichow, and Paotowchen in 1924. It

¹ *Ibid.*, Dec. 27, 1924; Oct. 13, 1928; *Chinese Economic Journal*, Sept. 1928.

² *Chinese Economic Bulletin*, July 10, 1926; Oct. 27, 1928; *Chinese Economic Monthly*, Oct. 1926, pp. 439–41.

³ *Chinese Economic Journal*, Aug. 1927, p. 752.

is stated that 'under normal conditions each factory employs from one to four hundred workers, both males and females, but in exceptional cases a plant may hire as many as 1,000. When operations are in full swing and the demand for labour is keenly felt on the local market, thousands of farmers from far-off places come to the factory centres to obtain work.'¹ The fluctuating character of the brick-tea plants, which entails the necessity of resorting to casual farm labourers, can also be observed in Hupeh, where brick tea consumed in Mongolia and Sinkiang is manufactured by the Shansi mercantile group, in brick-tea plants known as Kow Chwan from the fact that the tea is consumed outside the Great Wall. The plant and its equipment are of a temporary nature. The building is leased, while utensils and necessary tools are hired from tea brokers, for a period of several months beginning in the autumn. After the desired amount of brick tea has been turned out, the lease is discontinued, the hired articles are returned to the owner, and the workers leave their temporary factory for home. The buildings are spacious, containing sufficient rooms for offices, godowns, and packing-rooms, besides the workshop; the largest may accommodate as many as 2,000 men. A decade ago the owners of these buildings, i.e. tea brokers, also acted as agents for their tenants for the purchase of tea leaves, but many of the tea brokers have closed their offices owing to business depression, and the remaining operating firms have ceased to be purchasing agents. They function now no longer as brokers, except in name, but merely as innkeepers.²

Other food products prepared in the villages can be illustrated by bean-oils, hams, and fruits. In the villages along the Lunghai Railway there are a number of old-style oil mills, operated mostly by farmers on a limited scale. The beans consumed in such mills are chiefly produced in the farmers' own fields; hence their yearly output depends on the condition of the bean crop. In a year of poor bean crop most of such old-style mills are idle.³ The preserving of fruits is, in the two districts of Panshan and Taishan of Chekiang for instance, a dovetailing industry. In these districts, as the yearly output of fresh plums far exceeds the local demand, the farmers have to preserve a part of their yield in syrup or salt for export. The total annual output of fresh plums for these two districts is estimated at 50,000 piculs, with a value of \$400,000, of which a part is preserved.⁴ In Kinhwa and other districts of eastern Chekiang noted for ham production, the hogs are either killed by the farmers

¹ *Chinese Economic Journal*, Nov. 1929, p. 938.

² *Chinese Economic Bulletin*, April 3, 1926, pp. 180-1.

³ *Chinese Economic Journal*, Jan. 1929, p. 54.

⁴ *Chinese Economic Bulletin*, July 26, 1930, p. 46.

themselves or sold to local butchers for slaughter. In the former case the butchers cure the hams themselves, and in the latter case they sell the fresh hams to local ham curers, who prepare the hams for the market.¹

Chemical Industries.

A third group of industries in the rural districts may be called the chemical industries; they include the manufacture of such articles as paper, pottery, glass, fireworks, wood-oil, &c.

Paper-making, one of the earliest industries in China, is chiefly centred in the southern provinces because of the presence of the raw materials used—bamboo and rice stalk. Chekiang, which ranks with Fukien and Kiangsu as the largest paper-producing provinces to-day, had in 1929 24,437 native mills scattered in the 43 districts, employing a total working force of 126,752 (92,743 men, 22,013 women, and 12,096 children) and a total capital of \$5,090,028, and producing a total output worth \$20,850,487. The average for each mill, therefore, amounted to a labour force of 5.2 workers, a capital of \$208.3, and an annual output of \$853.2. These mills are carried on in the rural districts both as a full-time employment in the mills proper, i.e. small workshops, and as a part-time employment in farmers' homes, as can be seen from the wide discrepancy from district to district in the number of workers per mill, the amount of capital per mill, and the value of annual output per mill. In respect of the workers per mill, the largest had 17.2, in Shenhhsien, while the smallest only 2, in Wenling. If distributed by class, 13 hsien or districts belonged to that of 10.2–17.2 workers per mill, while the remaining 30 hsien averaged 2.0–8.8 workers per mill. In respect of the capital investment per mill, the largest, in Sinteng, had \$1,415, while the smallest, in Pingyang, had only \$14. If distributed by class, 8 hsien had \$1,050–1,415 per mill, 5 hsien \$528–934 per mill, 17 hsien \$106–469 per mill, and 13 hsien \$14–99 per mill. In respect of the value of annual output, the largest, in Wuyi, had \$7,608 per mill, while the smallest, in Tientai, had only \$91 per mill. If distributed by class, 22 hsien had \$1,060–7,608 per mill, and 21 had \$91–928 per mill.²

A comparison of the value of annual output per worker in the different hsien confirms the fact that not all of the workers were regularly employed in paper-making. The highest rate was \$1,025.75 per worker, in Suichang, while the lowest was only \$9.48 per worker, in Sungyang. But most hsien fluctuated around the average of \$164 per worker. Thus

¹ *Chinese Economic Journal*, Aug. 1929, p. 644.

² *A Report on the Paper Industry of Chekiang in 1929* (in Chinese), Provincial Government of Chekiang, 1930; *Nankai Weekly Statistical Service*, Mar. 13, 1933.

25 hsien were in the class of \$109-336 per worker, with only 9 hsien above and 9 hsien below this class.

Elsewhere, also, paper-making is a rural industry, as can be gauged from scattered records. In Paoting, Hopei, it is reported that 'large numbers of paper mills are operating in various rural districts'. In Chowtsun, Shantung, 'the paper-making centres also are found in the rural districts, the industry being pursued by the farmers as a side line'. In Weihsien, of the same province, 'there are seven or eight villages, around Anku and Hsin Chwan, where straw paper, writing paper, and paper for money (i.e. joss paper) are made mostly by farm families. These families work at this industry all the year except during the busy farm-work season. This home industry adds from one to two hundred dollars to the annual family income'.¹

Another rural industry of the chemical group is the making of *pottery*, including under this category also *bricks and tiles*, and *glassware*. In Ihing, a noted centre for pottery, the industry is carried on extensively by the rural population near by. The kilns are at Tingshan and Shusan, 10 to 12 miles from the town, but most of the ware is shipped through Ihing, which is reached by waterway from Soochow, Wusih, Changchow, and other nearby stations on the Shanghai-Nanking Railway. The villages in the vicinity of the pottery kilns, bounded by Hupien on the east, Tungkwanshan on the west, Nanshan on the south, and Kingki on the north, covering an area of over 30 square li, form the centre for the making of pottery bodies. About 60 per cent. of the population are pottery-body makers. Among these, two-thirds are female, turning out principally 'yellow goods', 'sandy goods', and 'dark-coloured goods', and one-third male, turning out 'fine goods' and *kongs* generally.²

In Poshan, Shantung, the making of glassware in small workshops is carried on in the villages. These shops, called *hsiao lu fang*, do not melt glass themselves but obtain the prepared material from the *ta lu fang*, or factories, in the form of glass bars and fashion them into toys, wall-scrolls, glass beads, imitation jewellery, and other articles. When the glass bars reach these shops they are partly remelted by heating and fashioned into any desired form before being hardened again. The market for the products, at the time of investigation in 1927, was dull, owing to the general unsettled conditions in the country. The more enterprising shops have opened sales departments in Tsinan to dispose of their accumulated stock. Apprenticeship, lasting over four years, prevails in these shops operated by master workers. The New Year

¹ *Chinese Economic Monthly*, Dec. 1926, p. 532; *Chinese Economic Journal*, June 1927, p. 548; Aug. 1928, p. 648.

² *Chinese Economic Monthly*, Mar. 1926, pp. 121-4.

festival is the only occasion when the shops suspend operation, for about one month.¹

Brick-making is one of the chief occupations of the farmers in Kashan, Chekiang, during the warmer seasons. There are approximately 500 brick-kilns in all, 100 being located in Kanyaochen, 90 in Hungchiatan, 150 in Hsiat'ienmiao, 20 in Fanching, and 3 or 5 in each of the adjacent smaller villages. With all the kilns operating, the monthly output of bricks in Kashan is estimated to be from 45 to 50 millions. Seventy per cent. of the output is consumed in Shanghai alone, the rest being distributed in Kiangsu and Chekiang. The brick-making season usually opens in April and closes in November, when work has to be suspended until March because of the severe cold weather. In Foochow, on the other hand, quite a large number of farmers engage in tile-making as a *slack* season occupation. They obtain clay from the fields at a depth of four or five feet, surface soil being unsuitable for tile-making. Over 20 kilns, employing about 400 to 500 hands, are operating in Foochow country districts, besides those in neighbouring districts, such as Changlo and Makiang. Large shipments of tiles are usually disposed of to the wealthy who are building houses or to the building contractors through the medium of carpenters and masons. There is also a class of brick- and tile-dealers in the city who obtain small consignments from the burners for retailing on the local market.²

Firecrackers.

Another chemical industry in the rural districts, which is chiefly concentrated in Liuyang, Hunan, is the making of firecrackers. The smaller variety, known as squibs, about an inch and a half long and one-quarter inch in diameter, and always used in a string, comes mainly from this district, to the extent of more than one-half of the total consumption in China. Its total yearly output is valued at over five million dollars and is not only consumed in China but also exported to foreign countries, partly for the consumption by the Chinese residents there. Liuyang squibs owe their popularity chiefly to the excellent quality of the paper of which the tubes are made. The paper, known as squib tube paper, is a special product of the district. Certain districts near Liuyang, like Wantsai and Pinghsiang, in Kiangsi Province, and several market towns in the neighbourhood of Liuyang also produce certain quantities of squibs every year. In all these districts, squib-making is partly a cottage industry, being pursued by farmers and their home folk, in slack farming seasons. The makers sell their product to squib-dealers in neighbouring

¹ *Chinese Economic Journal*, June 1927, pp. 586-7.

² *Chinese Economic Bulletin*, Oct. 8, 1927; Sept. 1, 1928.

cities and market towns. The latter, after having the cargo decorated, branded, and packed, consign the shipments to the consuming centres.¹

Elsewhere the making of firecrackers also occurs, although to a smaller extent. In Weihsien, Shantung, for instance, there are several villages, such as Nanhuchu, Peihuchu, and Tsiaerchwan, that are famous for firecrackers. Each family makes about one hundred dollars net annual income from this business. The product is sold both locally and in neighbouring districts.²

Quarrying.

A fourth group of industries that flourishes in the rural districts is not as considerable in extent as the above-mentioned three groups and may for that reason be treated together. In the country-side of Poshan, an industrial district producing coal, porcelain, and glassware, the rural population live chiefly by the mining industry, the majority being engaged in quarrying clay and minerals—especially coal. The well-known coal-mines are located at Heishan, south-east of the city, Hsiho, north-east of the city, and Chenghsi, west of the city. Most of the mines, organized by farmers who became interested in mining after the discovery of coal on their own holdings, are worked by small operators with primitive methods. There are also a few lime-burning kilns.³ In Hantan, Hopei, some of the farmers are engaged in clay-mining as a spare-time occupation. This particular kind of clay is a sticky substance, the purest specimens being white in colour and used mostly for washing clothing. Clay of inferior quality is used as a binder in briquetting coal-dust into balls, much as the Peking coal-dealers do with loess. The clay is obtainable everywhere in the country districts and is sold at 50 coppers per cartload of 1,200–1,300 catties. In Lungkow, Shantung, also clay-mining is a slack-season occupation for the farmers.⁴ In P'eng Ch'eng, Hopei, the method by which the clay for making the finer ware of the district is worked is another example of the same dovetailing.

'The clay for making the bowls is a soft, grey material occurring at a depth of from sixty to one hundred feet, and is extracted from localities within one or at most two miles of P'eng Ch'eng. This is done by local farmers during the enforced idleness of the winter season. A group of six or seven will join together to sink a shaft, . . . two men hewing the materials, two men pushing it to the foot of the shaft, one man seeing to the hoisting at the bottom, and two men on the surface. The landlord on whose ground the shaft is sunk is paid \$5 for permission to do this, and in addition 3 per cent. of the output. . . . Nothing, however, is paid to landlords under whose land the galleries run. . . .

¹ *Chinese Economic Journal*, Oct. 1929, pp. 837, 839.

² *Ibid.*, Aug. 1928, p. 649.

³ *Ibid.*, June 1927, pp. 579–80, 587.

⁴ *Ibid.*, May 1927, p. 468; *Chinese Economic Bulletin*, July 7, 1928, p. 5.

It is characteristic of these simple arrangements that the workers are paid on a share basis. . . . The clay is carried by wheelbarrow or mule-cart to the potteries. A gang of this kind will, it is said, excavate nearly seven tons of clay in a day, and will then require two days to deliver that amount at the potteries where it sells for one cent per ten catties. This works out at an average of about 55 cents per day per man.¹

Animal By-products.

Somewhat different in character from mining and quarrying is a second type of rural industry, deriving its existence from animal products, such as skin curing, glue preparing, horsehair sieve weaving, and brush-making. In Taying, a market town belonging to 'Tsaokiang in Hopei, skin curing is carried on by farmers who always go out to neighbouring districts in small parties of two or three to collect the skins. The more needy ones obtain loans for capital from the local skin-dealers. The bulk of the sheep and dog skins are cured in the village skin-curers' establishments, most of which are opened by the skin collectors themselves. The skins are made into coatings, overcoatings, or blankets before they are disposed of to the local skin-dealers or at the local fairs. The season for the export of cured skins covers from August to October. The ordinary skin-dealer acts merely as a commission agent between the exporter and the skin collector or skin-curer, but the well-financed ones also do business on their own account. The skins are exported to Tientsin via Tchow.

Glue-making, which consists in boiling the skins and hoofs of the cattle slaughtered locally, is pursued by the farmers in Chowtsun, Shantung, as a side line. The article is of brownish colour, made into rectangular pieces of varying sizes and sold at the town fairs, although glue exporters frequently visit the town to buy in large quantities. The monthly export figure is estimated to average about 150 piculs.

The making of horsehair sieves, which is carried on by women and children in the villages, is found in Anping, Hopei. The horsehair is collected principally from Kalgan, Kweihua, and Paotochen by dealers who in turn supply it to the home workers in the villages. The sieves are used for the sifting of flour and consumed mainly in Hopei, Shantung, Shansi, and Honan provinces. Besides, horsehair nets and veils are also manufactured in Anping for export to foreign countries.

Huchow pens, or writing-brushes, which have enjoyed a nation-wide reputation, are made from goat, skunk, and rabbit hair and chicken feathers—chiefly at Shanlienchen, a market town near Huchow. The

¹ Taylor, J. B.: 'The Hopei pottery industry and the problem of modernization', in *Chinese Social and Political Science Review*, Apr. 1930, pp. 186-7.

town is of little importance except as regards the pen-making trade, in which the local inhabitants, including those in neighbouring districts, male and female, are wholly or partly engaged. With the exception of silk-worm raising, pen-making monopolizes all the spare time even of the farmers, who may cultivate patches of rice or mulberry only to neglect them for the staple industry. The hands employed by the pen-making establishments are of two classes, the regular and the part-time workers. The former work and board on the premises, while the latter, mostly children, women, and the aged, do piece-work at home. There are about 1,300 regular hands, of whom two-thirds are women. The number of piece-workers is variable. In Huchow, only about 50 regular hands are employed in the business.¹

Picture-painting.

Still another type of rural industry in the miscellaneous group is the production of art objects, of which picture-painting is a good example. In Yangliutsing, Tsaomitien, &c., south of Tientsin, the villages are engaged in the painting of pictures, at first of joss images for the temples, but later on of scenery, figures, and historical events. The painters, mostly peasants, have over a hundred subjects for their pictures, which are classified into coarse, fine, and superfine, according to the technique of the artist. They are employed by shops and are paid at piece-rates. Every spring the shops prepare sketches and issue them to the workmen to fill in details and colour. The sketches consist of a few outlines, generally printed, indicating the subject. Nearly every member of a country household contributes to the work. One person does the human face, another fills in the details, and a third does the colouring. The daily wage averages twenty cents. At Tsaomitien there are regular picture markets from November to January, in which season the painting-shops open sales agencies in the inns or establish stalls in the streets. The pictures are mostly sold to pedlars who retail them in country districts at the New Year festival. Shipments for Manchuria, Jehol, and Mongolia are always exported in July or August, while those for Shensi, Kansu, and Chinese Turkestan usually leave as early as March or April, for their long journey half across Asia. There are altogether about thirty painting shops in the Tientsin neighbourhood, the largest being capitalized at from \$170,000 to \$180,000 each. Lately, a number of lithographic printing presses in Tientsin have taken up this branch of business as a side line. About 6,000 people in the Tientsin area earn a living, partly or wholly, as painters. Of the 151 households at Tsaomitien,

¹ *Chinese Economic Journal*, Dec. 1926, pp. 532-3; Oct. 1927, pp. 905-6; *Chinese Economic Bulletin*, Oct. 9, 1926, p. 215; Nov. 26, 1927, pp. 280-2.

about 80 per cent. are painters; of the 145 households of Chowliwutsun over 40 per cent. are engaged in the trade.¹

Miscellaneous Services.

A final sub-group of rural industries in the miscellaneous group takes the form of supplying the necessary services required of a farming community. In a study of the major by-employments of the farmers in the 453 villages in Tingsien, Hopei, the farmers, besides being engaged in agriculture, were found to serve also as blacksmiths in one village, carpenters in 10, sawyers in 12, masons in 6, and wagon makers in 2; while for minor by-employments the farmers serve as waterwheel makers in 1 of these 453 villages, windlass makers in 1, and well drillers in 2.² Elsewhere in Kucheng, the farmers in slack seasons also turn into village smiths. There are a dozen blacksmiths' shops turning out cutlery, cooking utensils, and agricultural implements, chiefly from scrap iron, to the total number of over 200,000 pieces a year, the bulk being exported to the neighbouring districts.³

FACTORS EXPLAINING THE OCCURRENCE OF RURAL INDUSTRIES

The four groups of rural industries described here, namely, textiles, food, chemical, and miscellaneous, may be further analysed with regard to their introduction, geographical distribution, systems of organization, raw materials, labour, and output.

The introduction of a certain industry into the rural district is often due to one or more of several factors that may also account for its existence later on. The initiative or enterprise of the village folks is the first factor. These village folks who, after having worked elsewhere and observed at first hand a new industry which may dovetail in with agriculture, bring back the arts of that industry and introduce them into their own village for profitable if not for philanthropic reasons. The establishment of the hand-loom weaving industry in Kaoyang furnishes a good example in this respect. A second factor is the working of philanthropic motives on the part of foreign missionaries. The successful attempt of Miss Nettie M. Senger in introducing wool-spinning and weaving in Chinchou through the 'North China School of Mother Craft', which at present is still in its formative stage of development, may be cited as an example.⁴ A third factor is supplied by the commercial motive of capitalists to make profit out of a rural population whose idle labour during off seasons can be easily exploited, as is true of the hosiery

¹ *Chinese Economic Bulletin*, Nov. 26, 1927, pp. 278-9.

² Lee, C. H., *Tingsien, a Social Survey*, published by the National Association of the Mass Education Movement, 1933, pp. 149-54 (in Chinese).

³ *Chinese Economic Journal*, Oct. 1927, p. 903.

⁴ Senger, Nettie M., *The Chin Chou Wool Project*, 1933.

knitting in Pinghu, where the women and girls, although highly sweated, are contented with the extra earnings derived from the new by-employment. This motive is also at work when an export industry, such as lace, embroidery, or drawn-thread work, can be more economically carried on by female labour in the villages. A fourth factor is the villager's attempt to dispose of his surplus crop or to make use of the agricultural by-product at spare times. The preserving of plums in Panshan and Taishan of Chekiang and the plaiting of straw in North China serve as good illustrations. In this case it may also be remembered that the craft to be introduced must be simple in respect of technique as well as of equipment, otherwise it may not be worth the farmer's trouble. A fifth factor, the attempt of the farmer to utilize his spare time in processing his own crop, is at work in the case of silk reeling, tea preparing, and oil pressing. Finally, the existence of a local raw material which can most profitably be worked up at the spot of occurrence, such as is true of coal- or clay-mining in Poshan and P'eng Ch'eng, gives rise to a further type of rural industry during the slack farming seasons.

The geographical distribution or location of rural industries is conditioned by several factors, of which the presence of raw materials, the accessibility to the market, and the possession of skill are the more important. The presence of raw materials, which in itself is determined by natural occurrence and climatic conditions, is responsible for the rough division of rural industries into what may for general purposes be called northern or southern industries. Tea preparing, silk and ramie weaving, and paper-making are mostly found in South China, as the raw materials of tea, silk, ramie and bamboo or rice stalk (for paper-making) can be grown only in the warmer regions; while wool-spinning and weaving and straw plaiting are found in North China for the opposite reason. The location of the pottery industry in Ihing, Kiangsu, and in P'eng Ch'eng, Hopei, is due to natural occurrence of clay materials in these districts. Accessibility to market is an important consideration in the location of brick and tile industries, in the making of baskets, &c., while the presence of special skill accounts, partly if not wholly, for the rise of Shaohing wine, Ihing pottery, and Tientsin paintings.

The system of organization among the rural industries is quite varied, and in most cases assumes a transitional character. It is also elastic in that an industry, organized under the master craftsman system, can be equally well operated under the merchant-employer system. On the whole, it may be concluded that the pre-industrial systems of organization that prevailed at one time in Western countries, such as the United Kingdom, can also be found in China to-day.¹

¹ Fong, H. D., *The Triumph of the Factory System in England, 1930, passim.*

The household system of organization, under which the industry is carried on within the household with its own raw materials, labour, and tools for home consumption, may be illustrated to a certain extent by the preparation of food products from farm crops, such as tea, wine, oil, fruits, ham, &c. But it is difficult to find an industry in the villages which is exclusively carried on under this system; more frequently it is connected with another system, usually the master craftsman system, at the same time. A part of the wine distilled in Shaohing, for instance, is destined for home consumption, but an even larger part may be produced under the master craftsman system for a market.

The craftsman system may be further subdivided into the family craftsman and master craftsman systems. Generally speaking, under the craftsman system the craftsman, with his own tools and own place of work, purchases the raw materials and works them up into finished products for sale to the consumers or merchants. Under the family craftsman system, however, the craftsmen are usually family members instead of male adults, and the employment is often part-time instead of full-time. The technique, too, is simple, with no requirement for costly tools or separate premises for the workshop, while the sale is made usually to the dealers or at fairs, seldom directly to the consumers. In the industries described above, straw plaiting, mat weaving, silk reeling, and ramie-cloth weaving offer interesting examples of the family craftsman system, while wine distilling, pottery making, glassware-making, paper-making, and firework-making, illustrate the master craftsman system.

The merchant-employer system is at work when the merchant employer, the pivotal figure under the system, purchases the raw materials, puts them out either directly from the office or warehouse, or indirectly through his own agents or some other middlemen, to be worked up into finished or partly finished products by the outworkers. Hosiery knitting in Pinghu is an excellent illustration of this system, while lace-making in Wusih offers another. In the former case, the raw material is given out directly by the merchant employer at his office, while in the latter agents are employed to distribute the raw materials and collect the finished products. The determining factor here is chiefly the dispersion of the outworkers and the distance to be travelled. This system, however, does not always operate alone; as in the case of cotton hand-loom weaving in Kaoyang, it works together with the master craftsman system. In time of brisk demand the risks of manufacturing may be left entirely to the merchant employer, while during slack seasons the outworker, being partly or wholly unemployed, has to bear his own risk in purchasing the raw materials, marketing the finished products, and in short, financing the little enterprise entirely on his own resources.

The factory system, under which production is carried on in separate premises under single control, and on a relatively larger scale, may be found in rural industries, such as paper-making, pottery-making, coal-mining, &c. This system, however, is not so adaptable to the rural districts except under special circumstances. Its requirement of regular and uninterrupted operation does not fit in well with the labour situation of a farm community, although the presence of raw materials or special skill may justify the erection of factories in rural districts, as is true of pottery-making or wine distilling.

The raw materials employed in rural industries may be classified in respect of source of supply, stage of production, ownership, and method of purchase. In respect of source of supply, the raw materials employed in rural industries are derived either from the peasants' farms, such as cocoons for silk reeling, tea leaves for tea preparing, fresh fruits for fruit preserving, straw stalks for plaiting; or from the neighbourhood, such as glass bars for glassware-making, clay for pottery, &c. They may have been imported from far-off districts, such as beans for bean-oil pressing, cotton yarn for cotton weaving; or from foreign countries, such as rayon for rayon weaving in Kaoyang. In respect of the stage of production, some raw materials employed in the rural industries may be raw materials in the true sense, such as rice or kaoliang for wine distilling, beans for oil pressing or vermicelli-making, tea leaves for tea preparing, silk cocoons for silk reeling; but others, such as yarn, lace, paper (for squib-making), &c., have already been transformed into finished or semi-finished products. The ownership of raw materials depends upon the type of organization in operation. Under the craftsman system the materials are owned by the peasants, whether produced on the farms or purchased from outside, usually from dealers to whom the finished product is sold, but sometimes at fairs, as is true of the cotton yarn in Kaoyang. When the materials are supplied by the merchant employer, as in hosiery knitting, lace-making, embroidery, &c., they are distributed directly or indirectly by agents, together with the necessary patterns.

Labour in rural industries has its unique features. It is, in the first place, seasonal in character, as rural industry is essentially a dovetailing occupation. Secondly, such labour is usually composed of family labour, embracing husband, wife, children, and others. In cases where deftness is required, such as for lace-making, embroidery, ramie-cloth weaving, female labour, especially of a juvenile character, is employed; but where strength and skill are needed, man labour is resorted to. A third feature is the lack of organization, for rural labour is mostly dispersed and seldom pulls together for united action. Sweating is common, so also is lack of discipline—resulting in irregular production of inferior and

heterogeneous output. A fourth feature is the simple but backward technique employed. The backwardness of technique, which is chiefly responsible for the rapid decline of two of China's basic rural industries, silk and tea, is also causing the decline of other industries, such as straw plait, pottery, &c. The simplicity of technique is characteristic of rural industries, especially of those of a by-employment character, as no one engaged in a dovetailing occupation can afford or cares to take the trouble of going through a severe discipline of apprenticeship. Consequently, many of the rural industries, such as mat weaving, straw plaiting, lace-making, and hosiery knitting, can be easily learnt in a short period of time, sometimes in so-called 'schools', such as the 'lace schools'.

The products from such rural industries as bricks and tiles are largely for local consumption, but in a large number of cases they figure prominently in domestic or foreign trade. In a previous section on the 'Decline of rural industries in China' (p. 306 *et seq.*) we have already seen the importance of some sixteen groups of foreign exports which are contributed largely by rural industries, many of these exports also counting as important items in domestic trade. Some of these products are ordered beforehand, through the producer's own agents or dealers who are sometimes accommodated with credit facilities by the exporters, such as the lace made in Chefoo. But more frequently the products from rural industries are sold in ready-made form by the peasants to the dealers, who in turn sell them to the wholesalers—the exporters. In exceptional cases, in glassware-making in Poshan for instance, the small masters establish their own sales departments in Tsinan for the disposal of their products.

RURAL INDUSTRIES IN HOPEI

Because of the lack of comprehensive information, the above survey of the rural manufacturing industries in China gives but a rough picture. For Hopei, however, a rather complete census has been taken of the home industries in the rural districts, that is, of those industries in the rural districts carried on at home mostly as a by-employment, although in the absence of official definition it may reasonably be presumed that some workshop industries, requiring full-time employment, may have been included. In the 129 hsien of Hopei covered by the census, home industries were found in as many as 127 during the year 1928. These industries, forty-four in number, are classified into four groups—textiles, food, chemical, and miscellaneous—in Table XIII, in the same way as the rural manufacturing industries in China have been classified in this paper. According to this table, the value of products of the home

TABLE XIII—VALUE OF THE PRODUCTS OF HOME INDUSTRIES IN HOPEI FOR THE YEAR 1928
CLASSIFIED BY KIND

Kind of Industry	Value		Kind of Industry	Value	
	Total (\$)	Per Cent.		Total (\$)	Per Cent.
Textiles	91,554,217	88.2	Hat	28,730	..
Reeling, Silk	96,000	0.1	Ware	162,520	0.2
Spinning	2,794,870	2.6	Food	841,812	0.8
Cotton yarn and thread	2,726,870	2.6	Dates	11,540	..
Woolen yarn	50,000	..	Flour, green bean	20,844	..
Hempen rope	18,000	..	Molasses, rice	400	..
Weaving	82,060,974	79.1	Oil, pea-nut	2,728	..
Cotton	45,939,557	44.3	Tobacco	6,300	..
Cloth	45,072,427	43.4	Vegetables, salted	800,000	0.8
Small ware	867,130	0.9	Chemical	3,943,624	3.8
Towel	72,940	0.1	Chalk	598	..
Ribbon	274,990	0.3	Firework	3,112,960	3.0
Bag	509,200	0.5	Paper	830,066	0.8
Other	10,000	..	Miscellaneous	7,517,100	7.2
Cotton and rayon cloth	31,640,000	30.5	Artificial flower	26,000	..
Silk cloth	27,160	..	Bamboo screen	16,000	..
Woolen blankets	54,609	0.1	Broom	64,500	0.1
Cow-hair blankets	3,600	..	Charcoal	1,280	..
Rush mat	4,388,848	4.2	Fur preparing	6,969,690	6.7
Kaoliang mat	7,200	..	Ink grind	28,500	..
Knitting	18,009	..	Ironware	14,520	..
Cotton hoses	17,919	..	Joss stick	81,050	0.1
Woolen sweaters	90	..	Needle, mat-making	15,000	..
Plating	6,584,364	6.4	Pen, hair	90,000	0.1
Willow, bramble, and mulberry	1,626,594	1.6	Reed	480	..
Straw	4,957,770	4.8	Sieve	210,000	0.2
Plait	4,766,520	4.6	Tinware	80	..
			Total	103,856,753	100.0

industries in Hopei for the year 1928 reached \$103,856,753, of which \$91,554,217, or 88.2 per cent., belonged to the textile group, \$814,812, or 0.8 per cent., to the food group, \$3,943,624, or 3.8 per cent., to the chemical group, \$7,517,100, or 7.2 per cent., to the miscellaneous group. Among the forty-four individual industries in the four groups of home industries, the most important eight industries claimed \$100,303,909, or 96.6 per cent., of the total value of products from the home industries in Hopei during 1928. These eight industries, in order of relative importance, are:

	<i>Value</i> (dollars)	<i>Per cent.</i> <i>of Total</i>
Cotton-cloth weaving	45,072,427	43.4
Cotton- and rayon-cloth weaving	31,640,000	30.5
Fur preparing	6,969,690	6.7
Straw plaiting	4,766,520	4.6
Rush-mat weaving	4,388,848	4.2
Firework-making	3,112,960	3.0
Cotton yarn and thread spinning	2,726,870	2.6
Willow, bramble, and mulberry branch plaiting	1,626,594	1.6
Total	\$100,303,909	96.6

Of the total output value of \$103,856,753 for the 127 hsien in Hopei during 1928, \$81,817,624, or 78.6 per cent., were, as shown in Table XIV, produced by 21 hsien each of which had an output value of over one million dollars. Among these 21 hsien, Kaoyang led with \$31,620,000, or 30.4 per cent., and was followed by Shulu with \$7,005,289, or 6.7 per cent., Yutien with \$4,588,300, or 4.4 per cent., Jenchiu with \$4,451,000, or 4.3 per cent., Tsingyuan with \$4,170,000, or 4.0 per cent., Tsunhua with \$3,561,000, or 3.4 per cent., Tinghsien with \$3,175,050, or 3.1 per cent.

A further examination of Table XIV shows that the *per capita* value of output for Kaoyang, \$215.2, is the highest among the 21 hsien, and the lowest that for Tsienan, \$2.10. Among the other 19 hsien, the *per capita* value of output from the home industries is, in order of relative importance, \$19.3 for Shulu, \$16.7 for Jenchiu, \$14.6 for Yutien, \$13.4 for Nanlo, \$12.5 for Lihsien, \$10.3 for Wanhsien, \$10.2 for Tsingyuan.

The 21 important hsien which claimed 78.6 per cent. of the total output value for the home industries in Hopei during 1928 had fully 100 per cent. of the total output value of furs, 99.9 per cent. of that of cotton and rayon cloth, 90 per cent. of that of fireworks, 85.4 per cent. of that of cotton yarn and thread, 79.0 per cent. of that of straw plait, 65.9 per cent. of that of cotton cloth, 49.2 per cent. of that of rush mat, 41.5 per cent. of that of willow, bramble, and mulberry branch plaiting,

and 50.7 per cent. of that of the other 36 industries. Among these 21 hsien, cotton cloth accounted for fully 100 per cent. of the total output value in Lihsien, Pinghsan, Kaocheng, Chuchow, and Feihsiang, 99.2 per cent. in Paoti, 99.1 per cent. in Changyuan, 98.9 per cent. in Jenchiu, 96.6 per cent. in Paoyang, 95.3 per cent. in Siangho, 93.5 per cent. in

TABLE XIV

VALUE OF PRODUCTS OF THE HOME INDUSTRIES IN HOPEI
DISTRIBUTED BY HSIEN, 1928

<i>Hsien</i>	<i>Products</i>		<i>Population</i>	<i>Per Capita Value of Products</i>
	<i>Value</i>	<i>Per cent.</i>		
Kaoyang . .	31,620,000	30.4	146,923	215.2
Shulu . .	7,005,289	6.7	362,558	19.3
Yutien . .	4,588,300	4.4	313,454	14.6
Jenchiu . .	4,451,100	4.3	266,533	16.7
Tsingyuan . .	4,170,000	4.0	407,312	10.2
Tsunhua . .	3,561,000	3.4	416,880	8.5
Tinghsien . .	3,175,050	3.1	351,803	9.0
Paoti . .	3,025,000	2.9	315,065	9.6
Nanlo . .	2,880,650	2.8	214,496	13.4
Lihsien . .	2,282,245	2.2	183,286	12.5
Paoyang . .	1,967,690	1.9	364,209	5.4
Wanhsien . .	1,626,500	1.6	157,282	10.3
Pingshan . .	1,600,000	1.5	245,387	6.5
Fengshun . .	1,550,000	1.5	669,130	2.3
Tsienan . .	1,415,000	1.4	687,869	2.1
Tsingfeng . .	1,292,600	1.2	316,051	4.1
Kaocheng . .	1,248,000	1.2	243,722	5.1
Chuchow . .	1,190,000	1.1	209,820	5.7
Changyuan . .	1,070,200	1.0	244,264	4.4
Feihsiang . .	1,050,000	1.0	135,125	7.8
Siangho . .	1,049,000	1.0	148,211	7.1
Other 106 . .	22,039,129	21.4	21,268,824	1.04
Total . .	103,856,753	100.0	27,668,204 ¹	3.75

¹ Not including 461,388 for Tientsin and 111,830 for Laiyuan, the two hsien contributing nothing to the value of the products of home industries in Hopei Province in 1928.

Tsingyuan, 92.2 per cent. in Wanhsien, and 81.9 per cent. in Yutien; while cotton and rayon cloth accounted for fully 100 per cent. in Kaoyang. In 5 of the remaining 7 hsien, fur accounted for 99.5 per cent. in Shulu, straw plait for 100 per cent. in Nanlo and 68.2 per cent. in Tsing-

feng, fireworks for 75.8 per cent. in Tsunhua, and cotton yarn and thread for 73.3 per cent. in Tingsien. Both willow, bramble, and mulberry branch plaiting and rush-mat weaving are scattered in different hsien, and are not so concentrated as the other six industries. Among the 21 important hsien here included the highest percentage for rush-mat weaving, 28.4 per cent., is found in Fengshun; and that for willow, bramble, and mulberry branch plaiting, 12 per cent., in Tsienan.¹

Kaoyang: A Case Study.

Because of the preponderant importance occupied by cotton- and rayon-cloth weaving in the home industries of Hopei during 1928, an importance which is clearly shown by the fact that \$71,712,427, or 73.9 per cent., of the total output value from the 44 home industries in Hopei in 1928 was contributed by cotton and rayon cloth, the Nankai Institute of Economics, Nankai University, has chosen to make an intensive field investigation of the industry in Kaoyang, the largest weaving district in Hopei. The investigation was commenced in January 1933, and will, it is hoped, be completed by July. In the following paragraphs the rayon- and cotton-cloth weaving in Kaoyang, which, as shown above, contributed \$31,640,000, or 30.5 per cent., of the total output value from the home industries in Hopei, is sketched in some detail.

Kaoyang, a third-class hsien in the centre of the province of Hopei, has an area of 1,440 square li and a population of 154,130, giving a population density of 107 per square li (which is equivalent to 792 per square mile), and is well served by rail, motor, and boat transport from all directions. About 70 li north-west of the hsien is Paoting, an important terminus on the Peiping-Hankow Railway, while 30 li north-east of the hsien is the market town of Tungkowchen on the eastern edge of Peiyangting, a swampy lake which is served by the Tatsingho river flowing towards Tientsin, the leading commercial port of North China, at a distance of about 300 li. Besides, a motor-bus runs daily from Tientsin to Kaoyang, also for a distance of 300 li.

The rise of cotton and rayon hand-loom weaving as a rural industry in Kaoyang is attributed to several factors, of which the most important is the high density of population in a district which, because of its infertile soil, renders agriculture an unprofitable means of livelihood. According to the hsien's report to the Provincial Government in 1931, in Kaoyang, with a total land area of 510,000 mow, or 944 square li, only 351,398 mow, or 69 per cent., were arable, the remaining 158,602 mow, or 31 per cent., being frequently flooded or too alkaline in soil content for farming purposes. Under such circumstances, the need for some rural industry to supplement the scanty

¹ *Administrative Statistics of the Province of Hopei, 1928* (in Chinese); *Nankai Weekly Statistical Service*, May 29, 1933. The materials on the Kaoyang industry are supplied by Chih Wu, the field supervisor of the investigation on the industry for the Nankai Institute of Economics, Nankai University.

income from farming was keenly felt, and was met by a group of Kaoyang residents in Tientsin whose training in weaving was acquired at the Textile Department of the Training Institute, established in 1906, and its successor, the Higher Technical School. These residents returned to Kaoyang partly because of their regard for the development of some supplementary industry in the home district, but largely because of severe competition from weaving plants organized in Tientsin by the graduates of the Institute and the School. Other factors favouring the development of hand-loom weaving in Kaoyang included the excellent location in respect to transport, and the stoppage of foreign import as a result of the World War since 1914.

After a short period of rapid development since 1914, the renewal of foreign competition after 1919 prompted the Kaoyang weavers to improve their designs and to hasten the introduction of Jacquard weaving by the loom and Jacquard being made in Tientsin and imported into Kaoyang through local merchants. Around that time, rayon also was introduced as a weft, with cotton yarn as the warp. In 1925, with the invention of rayon sizing, rendering the yarn more tensile in strength for warping purposes, pure rayon fabrics, instead of cotton and rayon mixtures, were woven; and a further expansion of the industry took place. Recently, however, because of a combination of factors with regard to organization, production, and marketing, the industry has passed the peak of development in 1929, and is going downward towards a rapid decline, of which more will be said at the end of this section.

Hand-loom weaving in Kaoyang is organized chiefly under the merchant-employer system, and represents perhaps the highest development of that system in China. Under that system the weavers are dispersed in their homes in the villages, while the merchant employer, who purchases the yarn, puts it out to the weavers in exchange for the woven fabrics to be finished in his own plant or in one operated on a commercial basis by another set of capitalists. At times the weavers, after several years of hard work and because of the proximity to the town, may manage to weave on their own account under the craftsman system, and sell the woven fabric to the cloth merchants in town or at the fairs. Besides, a few factories of modest size for weaving may also be found, although, because of their requirement of regular operation and their overhead charges, these factories are owned only by those in control of a minimum amount of assured demand in a constantly fluctuating market. In the following paragraphs the merchant employers and the outworking weavers, together with the necessary marketing and financial institutions, are dealt with in greater detail.

The merchant employers in Kaoyang are of two classes, namely, *puhsi-chuang*, or grey-yarn and cloth merchants, and *yihsi-chuang*, or dyed-yarn and cloth merchants. The grey-yarn and cloth merchants, numbering 61 at the time of the Institute's investigations during the first part of 1933, perform the following functions: (1) They purchase yarn at the wholesale yarn market in Kaoyang, or through branch offices in Tientsin, Tsingtao, or Shanghai. Only the larger merchants, numbering about a dozen, purchase yarn through

the branch office. (2) They sell a part of the yarn purchased either at the Kaoyang wholesale yarn market or at the yarn fair, in the latter case generally to peasant weavers. (3) They put out yarn to the village weavers on the recommendation of acquaintances, usually old weavers; and collect from them the woven fabrics on the payment of a piece-rate. (4) They buy cloth at the cloth fair in addition to what is woven by the outworking weavers. (5) They have the cloth finished, i.e. dyed, calendered, &c., by the various finishing plants. (6) They transport the finished fabrics to outport branches for sale, of which the largest merchant has as many as nine, with one as the minimum and two or three as the average. (7) They remit cash received from sales to the native banks in Tientsin either for yarn purchase or for remittance to Kaoyang.

Since the chief function of a grey-yarn and cloth merchant lies in the putting out of yarn for weaving and in the purchase of additional cloth from the fairs in the first place, and in the sale of cloth through the outport branches in the second, large capital is usually necessary to finance his operation during the interval from the purchase of yarn to the final disposal of the cloth, which requires from three to seven or eight months. The largest merchant has a capital of from one to two hundred thousand dollars, while the smallest has to possess at least several thousand dollars. The average capital, however, is from twenty to thirty thousand dollars. In respect of the staff members employed on the premises of a grey-yarn and cloth merchant in Kaoyang, the number varies from over ten to sixty, being composed of the manager, accountant, sub-managers for the branch offices, employees, apprentices, janitors, and a cook.

The dyed-yarn and cloth merchants, whose scale of operations is smaller than that of the grey-yarn and cloth merchants, number 30 (1933), of whom 11 are located in the town. Of the other 19, as many as 11 are concentrated in the single village of Yuliutso, south-west of the town. The functions of these merchants are to purchase yarn at the wholesale yarn market and to have it dyed at their own plants with their own workers, to put out the dyed yarn to the weavers for the production of stripes and checks, to collect the fabrics, and to transport them, by means of mule-carts, to the town warehouses for sale. The capital investment of these merchants is small because of the smaller scale of operations and quicker turnover of output, varying from one to over ten thousand dollars, and averaging about three to four thousand dollars. The staff is composed of the manager, accountant, three or four employees and apprentices, and three or four dyers. The weavers are not recommended by acquaintances, as in the case of grey-yarn and cloth merchants, but by a *chi-tou*, or head weaver, who has usually worked for the dyed-yarn and cloth merchant for a long time. The *chi-tou*, besides being responsible for the moral integrity of the weavers whom he introduces to the merchant, also supervises the putting out of yarn and the safe and prompt return of the woven fabrics. In case the weaver fails to deliver the fabric, the *chi-tou* helps to get back the unwoven yarn from him. For all these services the *chi-tou* is remunerated by the merchant with food gifts during

the three festivals, each gift worth from five to ten dollars, as well as with the privilege of getting by with slight defects in the cloth woven by himself and of dining at the merchant's plant whenever the cloth is delivered. Besides, the cloth woven by the *chi-tou* is often transported by the weavers under his supervision. A dyed-yarn and cloth merchant usually employs from two to four or five *chi-tou*, each of whom is responsible for the supervision of several tens to over a hundred weavers.

Most of the weavers in the rural districts work for the merchant employers, while not a few also weave on their own account with hired hands. In still other cases, the weavers may together rent a common workshop, while taking care of their own businesses individually. Again, as in Yuliutso, where 11 of the 30 dyed-yarn and cloth merchants in Kaoyang are found, a peculiar type of co-operative enterprise prevails among the stripe and check weavers from Anping, a hsien 100 li south of Kaoyang. When Anping weavers first came to Kaoyang for work, they joined together in groups of from eight to ten, secured four or five apprentices, purchased five or six looms, and rented a few rooms for the common undertaking. The dyed yarn was purchased on credit from the dyed-yarn and cloth merchant, while the cloth, after being woven, was entrusted to the merchant for sale in town. Besides, the merchant might advance a loan to the co-operative workshop to tide it over its need. Such loans, together with the transactions on the purchase of yarn and the sale of cloth, were usually settled at the end of the year. The difference, which the merchant returned to the workshop, constituted the gross earning, from which was deducted the expenses incurred during the year. Whatever might be left over became the net profit for the co-operative undertaking, and was divided up among the weavers on a previously arranged share basis.

Besides the merchant employer and the outworking weaver, other institutions and merchants in the city connected with the hand-loom weaving industry, such as the wholesale yarn market, yarn and cloth fairs, wholesale yarn merchants, cloth merchants, and finishing plants, may be described in brief. At the time of the Institute's investigation in 1933, there were four wholesale yarn merchants in the town, whose function was to purchase yarn in large quantities from outports and to sell it again to local merchants, usually through the wholesale yarn market. Sometimes these merchants may also be engaged in the selling of dyes. Because of the extensive scale of the operation, a minimum capital of one hundred thousand dollars is required. The cloth merchants, including both *puchuang*, or those with, and *puti*, or those without, outport branches, operate on a smaller scale than *puhsichuang* or grey-yarn and cloth merchants. The functions of a *puchuang* are similar to those of a *puhsichuang*, except for the fact that a *puchuang* does not put out yarn for weaving by the outworker. In Kaoyang there are 31 *puchuang*, with an average capital investment of five or six thousand dollars and a maximum of twenty or thirty thousand dollars. A *puti*, with no outport branch, usually sells to a *puchuang* or *puhsichuang* the cloth which it has purchased from the country weavers at the fairs. There are at present 33 *puti*, each of which has an average capital investment of about one

thousand dollars, with a maximum of three to four thousand and a minimum of several hundred dollars.

The *Hsitze* or wholesale yarn market, established in 1913, has two business periods during the day, from 10 to 12 in the morning and from 4 to 6 in the afternoon. Strictly speaking, the wholesale yarn market is engaged in the trade of cotton and rayon yarn, but, in the absence of local banking facilities, it has taken over the functions of a domestic exchange market. Exchanges on Tientsin are freely purchased and sold, as in the case of cotton and rayon yarn, according to telegraphic advices from Tientsin, Shanghai, and Tsingtao, as well as the state of mind at the market. Because of the important role the market plays in the commercial and industrial life of Kaoyang, almost every merchant in the town is a member, on the payment of a small membership fee of two dollars, and dispatches daily from one to several clerks to participate in the market transactions, which are concluded by means of verbal promises or written slips. Speculation is also engaged in, although under no official regulations and in secret.

Besides the wholesale yarn market, which is run in a more or less organized manner, there are the various fairs for grey yarn, dyed yarn, rayon, grey cloth, checks and stripes, and rayon fabrics. These fairs are held either in a fixed place or on the street, six times per month. The fairs for grey yarn, dyed yarn and grey cloth are held on the 4th, 9th, 14th, 19th, 24th, and 29th of each month (in the lunar calendar); those for checks and stripes and rayon fabrics on the 3rd, 8th, 13th, 18th, 23rd, and 28th; and those for rayon on the 2nd, 7th, 12th, 17th, 22nd, and 27th. Whereas on the wholesale yarn market the unit of transaction is one-half of a bale of yarn (each bale being composed of 40 bundles, each bundle having a weight of 10 lb. 4 oz.), on the grey-yarn fair it is reduced to one bundle. On the dyed-yarn fair, the unit may be a bundle or a skein. The number of skeins in the bundle varies with that of counts. For yarns of 14's or less it is twice the number of counts; for yarns of higher counts, it is the same as the number of counts.

The subsidiary industries in Kaoyang, all of which are developed in one way or another in connexion with the weaving trade, include the machine dyeing and calendering plants, native dyeing and calendering plants, Shansi dyeworks, printing plants, native calendering shops, &c. In 1933 there are twelve machine dyeing and calendering plants, four of which grow out of the business of the various types of yarn and cloth merchants. The capital investment varies from several thousand to thirty thousand dollars. Because of severe competition, these plants have united in the Dyers' and Calenderers' Association. The native dyeing and calendering works, twenty-two in number, have a capital investment of from one to two thousand dollars; at times they have a part of the cloth calendered at the machine-dyeing and calendering plants. The Shansi dyeworks, nine in number, are operated by natives from that province, for the dyeing of blue fabrics, and have a maximum capital of but 800 dollars. The printing plants, also nine in number, are operated by small masters with the assistance of apprentices, and have a capital investment varying from a few hundred to one thousand dollars.

Their business is to print the rayon fabrics, bedding sheets, &c. The calendering shops, ten in number, are very small in scale, having only a couple of hundred dollars as capital and being engaged in hand calendering. Other plants and workshops include three card-making shops, two rayon-sizing shops, one Jacquard shop, also selling bicycles, and two shops engaged in the repair and sale of accessory parts.

The raw materials for the hand-loom weaving industry in Kaoyang, composed chiefly of cotton and rayon yarn, are, as described above, purchased through *puhsichuang* and *yihsichuang*. Both classes of shops have branch offices in Tientsin for the purchase of cotton yarn from the local mills, but more frequently from the *shaohao* or yarn shops. The offices are located either in the Kaoyang Merchants' Guild or in the inns. When a transaction is concluded between the branch office and the local yarn shop through the medium of a runner, a bill is issued by the runner, stating the brand, the count of yarn, the number of bales, and the price per bale, to be replaced by another one from the yarn shop, with which the office may apply for delivery at the yarn shop's warehouse. A part of the selling value may be paid in advance, but the transaction is generally settled at the end of the month. The delivery bill is usually turned over to the boat carriers or mule-cart drivers, for transport between Tientsin and Kaoyang. These carriers and drivers, who have been in the business for over a decade, seldom fail to deliver the yarn promptly.

Since most of the cotton yarn consumed in Kaoyang is purchased from Tientsin, it is possible to estimate from the credit collectors, who are sent from Tientsin to Kaoyang at the end of the year for the clearing and settlement of accounts, the total volume of yarn purchased and consumed by the weaving industry in Kaoyang. In 1929, when the industry had reached the peak of prosperity in Kaoyang, the total volume of yarn so purchased reached 100,000 bales of which 20,000 bales were resold to the weavers in Tsingyuan, Suning, Jenchiu, and other neighbouring hsien. During the last few years, this amount of 80,000 bales of cotton yarn consumed in Kaoyang has been reduced successively, until in 1932 the lowest figure of 30,000 bales was reached.

About 70 to 80 per cent. of the yarn consumed in Kaoyang is of 20 and 32 counts, the rest being of 16 or 42 counts. Formerly most of the yarns were imported from Japan, only the coarser variety of 12 and 16 counts being spun at home. Since the Manchurian incident of November 1931, attempt has been made to boycott Japanese yarn, as a consequence of which the proportion of home-spun yarn has risen from 30 to 40 per cent. of the total consumption.

Rayon yarn, which was not extensively introduced into Kaoyang until 1925, was directly purchased from Shanghai by one merchant at first, but by two in 1927, six in 1928, and eleven in 1929—the peak year. As time went on, however, a supply was also secured from Tientsin importers. It is estimated that of the 20,000 boxes of rayon yarn purchased in 1929 about 12,000 boxes were consumed by Kaoyang weavers. Each box is composed of 200 lb. of rayon bound in 20 bundles, and is commonly of 120 or 150

deniers. In 1932 the amount of rayon yarn imported, like that of cotton yarn, was reduced from 20,000 boxes in 1929 to only 8,000 boxes.

In respect of labour required in cotton- or rayon-cloth weaving Table XV gives an instructive comparison. For the weaving of 8 *p'i* of grey cotton cloth with a length of 100 *ch'ih* and a width of 2.5 *ch'ih* per *p'i*, or a total area of 2,000 square *chi'h*, the wage cost amounts to \$6.20, thus giving an average wage cost of 0.31 cent per square *ch'ih*; while for the weaving of 10 *p'i* of rayon cloth with a length of 52 *ch'ih* and a width of 2.1 *ch'ih* per *p'i*, or a total area of 1,092 *ch'ih*, the wage cost amounts to \$7.45, giving an average wage cost of 0.68 per square *ch'ih*, a wage cost which is more than twice that for grey cotton cloth.

TABLE XV
A COMPARISON OF WAGE COST FOR COTTON- AND RAYON-
CLOTH WEAVING IN KAOYANG, 1933

<i>Wages for weaving 8 p'i of grey cotton cloth on one loom in 8 days (100 by 2.5 ch'ih per p'i, weighing 8 catties)</i>				<i>Wages for weaving 10 p'i of rayon cloth on one loom in 10 days (52 by 2.1 ch'ih per p'i, using 120 deniers for weft and warp, with 3,000 warps)</i>		
	<i>Labour (days)</i>		<i>Wages (\$)</i>	<i>Labour (days)</i>		<i>Wages (\$)</i>
	<i>Man</i>	<i>Woman and Child</i>		<i>Man</i>	<i>Woman and Child</i>	
Sizing . .	1	..	0.40	½	..	0.20
Warp winding .	..	4	0.80	..	7	1.40
Warping . .	½	..	0.20	1	..	0.40
Drawing-in .	1	..	0.40	1	..	0.40
Weft winding .	..	6	1.20	..	3½	1.05
Weaving . .	8	..	3.20	10	..	4.00
	10½	10	6.20	12½	10½	7.45

Note: For rayon weaving the card is purchased from professional makers, and the wage for weft winding is more costly because of resort partly to apprentice labour.

On the basis of labour requirement for the weaving of cotton or of rayon cloth, as given in Table XV, the number of looms in the rural districts of Kaoyang can be estimated. Calculating on the basis, first, of half a bundle of cotton yarn per day for cotton weaving and of a quarter bundle of rayon yarn per day for rayon weaving, and, second, of 320 working days to the year (allowance being made for rest days and holidays), the 80,000 bales or 3,200,000 bundles of cotton yarn and 12,000 boxes or 240,000 bundles of rayon yarn consumed in Kaoyang in 1929 would have required 20,000 cotton looms and 3,000 rayon looms—a total of 23,000 looms. Allowing for 20 per cent. of looms being idle or unemployed during busy farming seasons or for

other reasons, the total number of looms, both employed and unemployed, would have reached 27,600 in the rural districts of Kaoyang. Since not every member of a weaver's family is at work all the time, because of household and other duties, we may safely assume that one loom on the average would have required the labour of four men, women, and children for the preparatory and weaving processes. The 27,600 looms in Kaoyang, therefore, would have kept a total rural population of 110,400 at work, of whom about one-third are male weavers in charge of sizing, warping, drawing-in, and weaving. The other two-thirds, women and children, are not always at work, and have to be counted as part-time workers.

TABLE XVI
WORKERS IN SUBSIDIARY INDUSTRIES IN KAOYANG, 1933

	<i>Plants</i>	<i>Dyers</i>	<i>Calenderers</i>	<i>Printers</i>	<i>Apprentices</i>	<i>All workers</i>
Machine dyeing and calendering plants	12	153	84	..	145	382
Native dyeing and calendering plants	22	96	50	..	132	278
Shansi dyeworks . . .	9					
Printing plants . . .	9	..	..	10	28	38
Native calendering shops	10	..	30	..	..	30
Total	62	249	164	10	305	728

Besides the 110,400 workers and assistants in the rural districts, there are in the city of Kaoyang, in 1933, 423 workers and 305 apprentices in the 62 dyeing, calendering, and printing works. The 423 workers include 249 dyers, 164 calenderers, and 10 printers.

The hand-loom weaving industry in Kaoyang, as here sketched, has shown a rapid decline since the peak year of 1929. Whereas in 1929 Kaoyang's consumption reached 80,000 bales of cotton yarn and 12,000 boxes of rayon yarn, in 1932 it was reduced to 30,000 bales of cotton yarn and 8,000 boxes of rayon yarn. In 1933 the industry has reached an even more critical state. According to the Institute's investigation, which is still under way, only one-half, or less, of the looms operating in 1932 are now at work. This dramatic decline, if prolonged, may wipe the whole industry out of existence, and may bring about a state of affairs much harder for the rural population to withstand than in the early days of wholly agricultural development. An examination of the factors responsible for the decline is, therefore, a prerequisite for any attempt to resuscitate or to revive the industry.

The factors making for the decline of the hand-loom weaving industry in Kaoyang are of two types, external and internal. The external factors, which lie beyond the control of the industry in Kaoyang, include the decline in the purchasing power of the rural population, the dumping of Japanese and

Russian piece goods on the Chinese market, the competition of silk with rayon fabrics, &c. The principal markets for Kaoyang cloth, which embrace the North China plain, the North-West, and the Yangtze basins, have in one way or another been affected adversely by civil war, foreign invasion, and world-wide depression. The North-Western provinces of Shensi, Kansu, Ninghsia, Shansi, Suiyuan, Chahar, and Jehol depend for their prosperity largely upon the export of native products, such as wool, skins, hides, and leather, to foreign countries; but with the spread of world economic depression the export has declined greatly between 1931 and 1932—from 37·7 to 18·8 million haikwan taels for skins, hides, and leather, and from 10·2 to 3·3 million haikwan taels for wool. The Japanese occupation of Manchuria in November 1931, and the Sino-Japanese war in Shanghai during 1932 and along the Great Wall during 1933 have contributed to hasten the break-up of China's whole economic structure, which had already been strained to its utmost limits during the years of incessant civil war, in Szechuan, in the communist-stricken area of Hupeh, Kiangsi, Hunan, and Fukien, and in North China during the Anti-Yen-Feng Punitive Expedition. With the spread of internal or external warfare, there is a stronger tendency for the rural population to migrate to the coastal ports for safety and protection. The well-to-do peasants have converted their property into ready cash, and have remitted this to the banks in the towns and port cities for safe deposit. The village is thus deprived not only of the energy and resourcefulness of these classes who are taking refuge in the towns, but also of their credit reserve which they have taken along on their departure. Credit becomes tight, and interest is correspondingly raised in the villages, while in the towns the contrary situation develops. The Kaoyang weaving industry, which depends largely upon the interior villages for its market, can no longer push the sales of its products. The dumping of cotton goods on the Chinese market by Japanese and Russian importers is another factor for the decline of the hand-loom weaving industry in Kaoyang. These foreign merchants, with a better product and a lower price, on the one hand, and with a closer marketing organization and stronger financial backing, on the other, have competed severely with the Kaoyang merchants who are now as disorganized as ever. The price for Japanese or Russian cotton piece goods, it is reported, is lower than that for the Kaoyang cloth by 20 to 30 per cent. Under such circumstances, Kaoyang merchants have reverted to the suicidal practice of depressing the price of their own products to the level of that of Japanese and Russian products—not by an economy in the cost of production, but by a reduction in the quantity and quality of the yarn used for weaving. Other factors, such as the rapid fall in the price of raw silk and cotton yarn, the higher price for rayon in terms of silver, &c., have also contributed to the decline of the hand-loom weaving industry in Kaoyang. The decline in the price of Chinese silk—which on the New York market fell from G\$2·64 per pound for January to G\$1·76 per pound for June in 1932, a decline of about one-third—has diverted to silk fabrics a part of the purchasing power which would have been monopolized by rayon fabrics. Because of the erratic

and, on the whole, downward fluctuation of the price of cotton yarn, from Tls. 168.50 during the first week of 1932 to Tls. 133.50 during the last week of May 1933—for 'man and bell' brand of 16's for instance—a decline of about one-fifth, the merchant manufacturers in Kaoyang have preferred to live from hand to mouth in the purchase and putting out of yarn, so as to avoid the risk of having to purchase the yarn at a high market price and to sell the cloth at a low market price. That the price of rayon fabrics has tended to fall rather than to rise, in face of the increasing cost of rayon due to silver depreciation, is another factor causing the decline of the weaving industry in Kaoyang.

The internal factors for the decline of the weaving industry in Kaoyang can all be summed up under the heading of poor organization or lack of organization. The extent to which the industry has been built up in Kaoyang during the last twenty years cannot be said to be small, for according to a recent census the total value of the output for that industry during 1928 amounted to over 31 million dollars. Yet, for an industry of such a magnitude, many of the necessary institutions ordinarily required for efficient manufacturing, marketing, or financing are totally absent. In the first place, the industry would have required at least the erection of a fair-sized plant to supply the mechanical power for finishing processes, such as calendering, if not for weaving. In Kaoyang no plant of this character has yet been thought of, and the economy to be derived from the spread of power transmission to the rural districts is still foreign to the merchant manufacturers and weavers in Kaoyang. For finishing processes, where the need for mechanical power is most urgent, the twelve larger plants have resorted to the generation of steam power on their own premises, but have not co-operated to establish an electric plant for common use. Similarly, no warehouse has been established for the storage of yarn or of cloth. The stock is usually piled up at the rear of the merchant manufacturer's office, with no attempt to insure it against fire or to grade it in a systematic manner for better and easier disposal. With the accumulation of stock in this primitive manner at a time of poor business and slow turnover, considerable capital must have been tied up. Were a modern warehouse to be established and operated on a modern commercial basis, much of the capital so tied up could have been released in the form of liquidatable warehouse certificates, apart from other benefits frequently derived from such an institution. The absence of a modern bank to finance the huge operations of the weaving industry is even more striking, and from a modern commercial viewpoint the industry cannot be left to its present state of financial accommodation. As has been remarked in a previous paragraph, the financial needs of the community are supplied through the exchange operations on the wholesale yarn market, which is itself poorly organized for an extensive industry. For local circulation, however, the clumsy system of *pa-tyau*, or promissory note, is in operation. If merchant A buys a certain quantity of yarn from merchant B, the former usually issues a *pa-tyau* to the latter as a means of payment. Meantime, merchant C, selling another lot of yarn to merchant B, may be paid with merchant A's *pa-tyau*

by merchant B if the amount involved be the same as that for the transaction between merchants A and B. If not, a new *pa-tyau* will be issued by merchant B to merchant C. In this way, *pa-tyau*, the form for which is designed in a uniform manner by the local Chamber of Commerce, passes as medium of circulation on the Kaoyang market, while cash money, which is seldom found, commands a premium. In case merchant A is in need of cash for paying his weavers or for other similar purposes, he must have his *pa-tyau* cashed at a fluctuating rate of discount. In order to avoid this loss, he usually hires a certain number of runners to have the *pa-tyau* traced to its source. The runner will first trace the *pa-tyau* to the issuer, say merchant B. Merchant B, however, will not pay off his *pa-tyau* with cash money if he can produce the *pa-tyau* of some other merchant to whom he is a creditor. The runner, in other words, simply exchanges B's *pa-tyau* for C's, and C's for D's, and so on, until the ultimate debtor is located, who has to produce cash for the payment of the *pa-tyau*. Merchant A, in this manner, has the *pa-tyau* cashed at par value, not at a discount, but has to suffer about the same loss arising from the employment of runners. A large merchant in Kaoyang, it is said, has to cash his *pa-tyau* five or six times a year, each time employing about a dozen or so of runners. In short, this system, which operates in the absence of a central clearing house, incurs a heavy cost in the form of runners' wages or of default of payment by the issuer of *pa-tyau*.

Illustrations of the poor organization, or of lack of organization, of the hand-loom weaving industry in Kaoyang can easily be multiplied. With an annual production as large as 31 million dollars for 1928, no agency has ever been founded for the collection and distribution of information on market conditions. Every merchant manufacturer trusts to his own judgement for the purchase of yarn, as well as for the production and marketing of cloth. When a collapse of the market takes place, each and every one in the industry is caught unaware. No attempt is made to estimate the character, source, magnitude, or requirement of the demand, nor is any information ever collected on the new technical developments elsewhere. In other words, in the midst of a highly competitive world, the industry in Kaoyang is completely lost in its blind dependence upon a fortuitous market. Competition is met, not with an improvement in production, but with the suicidal practice of imitation and deterioration.

RURAL INDUSTRIES IN CHINA'S RECONSTRUCTION

Despite the recent rapid decline of rural industries in China, the place that rural industries may still occupy in China's reconstruction cannot be totally ignored. Provided that proper measures be taken to eradicate the external and internal factors for the decline of China's rural industries, such industries have still their functions to perform in China's national life, functions that may be either economic or social in character. The most important of the economic functions that rural industries may fulfil is the utilization of spare-time labour, important chiefly

because Chinese agriculture, the means of livelihood for 74·5 per cent. of the total population, is fundamentally seasonal in character. Aside from Professor Buck's study, quoted above, Professor Cressey's geographic researches have indicated that in China the growing season may vary as much as from 100 days in Khingan Mountains in western Manchuria to fully 365 days in the hills of Liangkwan. For the North China plain, where the density of the population is 647 per square mile of land and 978 per square mile of cultivated land, the growing season is only 200 days. For other important agricultural regions the growing season is: 150 days for the Manchurian plain, 175 for the loess highlands, 300 for the Yangtze plain, and 325 for the Red Basin of Szechuan.¹ All this tends to confirm the prevalence of idle labour during the non-growing season in the various parts of China. Indeed, in a recent Memorandum to the Rockefeller Foundation, the North China Industrial Service Union has well presented the issue in the following terms:

'In North China, the smallness of the farms and the nature of the farming—the raising of field crops—combine with the long, hard winters to render agriculture a part-time industry. The farming community, except where subsidiary industries exist, has five or six months of idle time. A conservative guess would put the under-employment of those members of the farming families of the nation between the ages of 15 and 54 as equivalent to the whole-time unemployment of about 55,000,000 people. Moreover, the climate with its uncertain and ill-distributed rainfall renders agriculture an insecure livelihood. These conditions impart an immense vitality to such rural industries as now exist, despite the lack of scientific services and industrial organization in country districts.'²

A second economic function to be performed by rural industries is the utilization of local resources and by-products. As we have seen in the preceding sections, most of the industries in the rural districts to-day derive their existence mainly from the utilization of local resources, e.g. quarrying and mining, brick works, food production and conservation, such as oil pressing, flour milling, and vermicelli-making, wine distilling, fruit preserving, textiles, such as wool, ramie, or silk weaving, &c. Agricultural by-products, such as reed or rush for straw plaiting, form the basis of another group of rural industries. In the United Kingdom or India it is also the group of industries utilizing local resources that

¹ Cressey, G. B.: 'The geographic regions of China', in *Annals of the American Academy of Political and Social Science*, Nov. 1930 (China number); *Nankai Weekly Statistical Service*, Feb. 29, 1932.

² In an unpublished Memorandum to Dr. Solskar M. Gunn, of the Rockefeller Foundation, entitled *Proposals for Industrial Research and Training, a Phase of Rural Reconstruction*, dated June 1933, by the North China Industrial Service Union.

has been most developed in the rural districts. In India the Royal Commission on Agriculture in 1928 concluded that

'as the economic relations between industry and agriculture grow closer, the number and variety of these primary processing factories in rural areas (e.g. cotton ginneries, rice mills, sugar refineries) may be expected to increase greatly, and seasonal employment in them may come to be an important factor in the cultivator's economy. Seventy-five per cent. of the labour employed in the fifteen large sugar mills situated in Bihar and Orissa is agricultural.'¹

A third economic function to be performed by rural industries is their contribution to farm income, which by providing for a more generous margin of existence helps to insure against famine, banditry, and communism. Although on the farms covered in Professor Buck's study for the twelve localities in the five provinces of China the average per cent. of income from home industries amounted to only 2.9 per cent. of the total farm income, such a percentage was as high as 14.8 per cent. in Kiangnin, Kiangsu, and 10.4 per cent. in Hwaiyuan, Anhwei.² In another survey, of twenty-five farms in Mount Omei, Szechuan, by Dr. Brown, the home industries were said to have contributed \$15.40, or 8.8 per cent. of the total income (\$176.10).³ The size of such income, however, is not uniform for all farmers but varies with the size of farm and the type of land tenure. In Dr. Brown's study of fifty farms on the Chengtu plain, it is stated that

'on 58 per cent. of the farms there is some income derived from home industries. This item includes silk culture, weaving, &c., and averages \$11.90 on all farms. Considering only the farms with home industries, the average is \$20.51 which is a considerable item in the meagre budget of the farm. Only 40 per cent. of the owners engage in home industries, and 40 per cent. of the part owners, but 79 per cent. of the renters make some money in this way. It runs as high as \$70 on a five-acre farm of nine occupants. The renters average \$18.35 income in this way, the part-owners \$7.80, and the owners \$6.13. The indication is that the renters on the smaller farms have more time to give to home industry and also are under more pressure to supplement their income by this type of work.'⁴

Other economic advantages to be derived from rural industries include the provision of local needs, the increase of community income either through a decrease in imports or through an increase in exports, the levelling up of rural standards of living, the development of rural crafts-

¹ Report, *op. cit.*, p. 576.

² Buck, *op. cit.*, p. 98.

³ Brown, Harold D., 'A survey of twenty-five farms on Mount Omei, Szechuan, China', in *Chinese Economic Journal*, Dec. 1927, p. 1071.

⁴ Brown, Harold D., 'A survey of fifty farms on the Chengtu plain', in *Chinese Economic Journal*, Jan. 1928, p. 60.

manship, &c. A final function, which in view of the present status of Chinese agriculture cannot be realized in the immediate future, is the utilization of machinery and transport in conjunction with agriculture. The increasing use of power and machinery is one of the features of large-scale farming. Small farmers, who constitute the majority if not the whole of China's agrarian population, would be less at a disadvantage in this respect if machinery, engines, and motors, which they would only require at certain seasons on the farm, could be turned to account in some form of manufacture at other times.

The social functions of rural industries are equally as important as the economic functions. The general form of economic development which is characteristic of small-scale or decentralized industries in the rural districts makes it relatively easy to avoid the recognized evils of mechanization and to secure that the machine shall be understood by, and be the servant of, the worker. Again, rural industries may introduce into rural life a different or manufacturing element which makes life more interesting and people more intelligent, alert, and progressive. The educative values of rural industries, too, cannot be ignored. This is especially so if the rural industries can be organized on a co-operative basis; and the newly introduced co-operatives can fulfil the role that has been so well played by the folk high schools in Denmark.

'Independent or small group production, combined with membership in the larger co-operative or other association, develops both personal responsibility and the virtues of team work. The traditions of a peasant society provide a suitable soil for such developments, while through these new industrial groupings the way is prepared for wider social co-operation. The (North China Industrial Service) Union has learnt of striking examples of the fine leadership which has arisen under similar organization in both France and Germany, and which has found its sphere in the executive posts of co-operative society and handicraft association.'¹

The dilemma in China to-day is that, on the one hand, rural industries have definitely important functions of an economic and social character to perform, while, on the other, the rural industries now in existence are rapidly declining or even disappearing. What, then, are the difficulties or handicaps that are confronting these industries? Some of the difficulties, such as the superior economy of large-scale machine production, are fundamentally beyond the capacity of small-scale rural industries to cope with. Cotton spinning, in which large-scale machine production is supreme, must in the course of time disappear totally as a small-scale rural industry. Other difficulties, however, may be faced with an improvement in technique or in organization. Rural industries have

¹ Proposals for industrial research and training, *op. cit.*, p. 4.

been at a disadvantage through the lack of facilities for obtaining the information, education, and training necessary for a type of production which must, to hold its own on the market, be adaptable and able to produce articles of good quality. This difficulty can be dodged through the establishment of rural workshops devoted to extension work, as has been successfully done for agriculture through the establishment of experiment stations. Again, the workers have too often been at the mercy either of employers or of dealers who took advantage of their ignorance of markets and market values, and of their urgent need, to keep down the prices. Depression reacts on quality, and thus the distinctive character which makes the rural product marketable is lost. This difficulty is inherent in the prevalent systems of organization, the craftsman and the merchant-employer systems. But, in the future development of rural industries, a new form of organization, the co-operative society, can be substituted for them. This form of organization, which has already had a good start in Hopei, Chekiang, Kiangsu, and other provinces, in respect of credit provision in particular, can be well adapted to the needs of rural industry, both for buying where the material is not produced on the spot, and for selling where the manufacturer is not in direct touch with the customer. Meantime, such societies need not dispense with the services of a private dealer. Middlemen there must be between producer and customer, whether these are the servants of a co-operative society or independent merchants; but there must not be too many of them, and they must render efficient service to both producer and consumer.¹

¹ Tayler, J. B., 'A policy for small-scale industry in China', in *The China Critic*, Mar. 16, 1931; Woods, *op. cit.*, Part I, Ch. IV.

DOCUMENT IV
CHINESE GOVERNMENT ECONOMIC PLANNING AND
RECONSTRUCTION¹

GIDEON CHEN

Dean, College of Public Affairs, Yenching University, Peiping

IN THE LAST few years there have been several plans for the economic development of particular industries and regions, of which we shall cite as examples: H. H. Kung's Plan for Developing Basic Industries; Chen Kung-po's Four-Year Industrial Plan; Sun Fo's Railway Plan; and the Plan for Developing the North-Western Region. Other provincial and local plans will be touched upon in a later section.

H. H. KUNG'S PLAN FOR DEVELOPING BASIC INDUSTRIES

When Dr. Kung was Minister of Industries from 1928 to 1931, he several times presented his Plan for the Development of Basic Industries in China to various Plenary Sessions and National Congresses. Two of the schemes may be mentioned as typical.

His Basic Industrial Plan, adopted by the Fifth Plenary Session of the Second Central Executive Committee of the Kuomintang in September 1928, listed eight kinds of industries, namely:

1. development of iron and steel industries throughout the whole country,
2. electrification of the whole country,
3. establishment of state machine shops,
4. establishment of a state salt refinery,
5. establishment of state works for the manufacture of acids and alkalis,
6. establishment of state fine cotton spinning-mills,
7. establishment of state paper mills,
8. establishment of state alcohol distilleries.

The estimated minimum budget for the above industries, and including the establishment of a state bank for international trade, came to a total of \$200,000,000, to be raised by the floating of loans.

After having been passed by the Plenary Session and referred to the National Government for execution, the list was reduced in 1929 to four

¹ Parts III-VI, slightly abridged, of a paper presented under the title, *Chinese Government Planning and Reconstruction since 1927*.

items: iron and steel, acids and alkalis, fine cotton spinning, and machine shops. The list was further divided into two stages: the construction work involving small cost to be undertaken first, and the more costly, such as iron and steel foundries, to be undertaken later. In accordance with this decision, a budget of \$15,000,000 to cover the expenses of five factories—a cotton mill, a woollen factory, an acids manufactory, an alkalis manufactory, and a sugar refinery—was drawn up. It was then expected that a portion of the additional income from customs revenue, after the new rate was enforced, would be set aside for this purpose.

At the National Congress of the Kuomintang representatives, held in November 1931, Dr. Kung proposed another plan, somewhat similar to, but less detailed than the one drawn up in 1928, with a definite proposal that 20 per cent. of the National Budget should be spent for industrial reconstruction: 6 per cent. for agriculture, 6 per cent. for afforestation, 4 per cent. for mining, and 4 per cent. for commerce and industry. A very ambitious plan for the development of state iron and steel works in North, East, and South China, which called for capitalization of \$300,000,000 was also introduced by Dr. Kung and passed by the conference.¹

CHEN KUNG-PO'S FOUR-YEAR PLAN

Mr. Chen Kung-po succeeded Dr. H. H. Kung as Minister of Industries on January 1, 1932. On his assumption of office, the new Minister made a public statement regarding a Five-Year Plan. His Five-Year Plan was soon changed into a Four-Year Plan, presumably falling into line with the general policy of the National Government to complete all plans for reconstruction by 1935, at the end of the 'Period of Tutelage'. The Four-Year Plan, according to Mr. Chen's address at the Memorial Service at the head-quarters of the Central Kuomintang, Nanking, on October 17, 1932, is to develop the Yangtze valley as the centre of heavy industries. Several reasons are given for the choice of this particular region, namely: the Yangtze valley is the seat of the National Government; it occupies a central position in the country with easily accessible means of communication; and it is rich in natural resources. The Ministry of Industries has drawn up twelve separate industrial plans for the Yangtze region: (1) coal, (2) iron and steel, (3) sulphuric acid, (4) machinery, (5) copper, (6) petroleum, (7) motive power, (8) automobiles, (9) electrical supplies, (10) sugar refining, (11) paper-making, and (12) porcelain.

¹ All of Dr. Kung's plans are compiled and published by the Ministry of Industries in one pamphlet of seventy pages (in Chinese).

Of the twelve industrial plans the first four to be put into operation are coal mining, iron and steel work, sulphuric acid manufacture, and machine shops. The coal plans are based upon the division of the coal-producing provinces in the Yangtze valley into twenty districts. Each district is expected to produce 2,000 tons a day, making a total of 40,000 tons. A sum of \$33,000,000 profit per annum is expected.¹ The iron and steel plant will be a joint Sino-German enterprise. Annual production of iron is expected to reach 170,000 tons, of steel more than 100,000 tons, and coal and other by-products to realize \$8,100,000 profit per year. The capital will be \$40,000,000, to be raised in two instalments. Sulphuric acid manufacturing works will call for \$15,000,000 as capital. German and British co-operation will be sought. The steel machine shops will include twelve different kinds of machinery; but, on account of financial difficulties, a state machine shop will be established first. The capital will come from two sources: \$1,500,000 for machinery from the British Indemnity Fund, and \$400,000 for buildings and other equipment from the Ministry of Industries.

In addition to the industrial plans listed above, there are plans drawn up by the Ministry of Industries for developing agriculture, commerce, mining, animal husbandry, fisheries, and light industries.

PLANS FOR NATIONAL RAILWAYS AND HIGHWAYS CONSTRUCTION

In Sun Fo's plan of 1928 for economic reconstruction it was proposed that 20,000 miles of railways should be built in a period of ten years, or an average of 2,000 miles each year. On the basis of these figures he later worked out a 'National Scheme of Railway Construction'.²

The first programme of railway construction for the first six years was to include the following lines:

- Group I.
 1. Completion of Canton-Hankow line (previously projected),
 2. Completion of Lunghai line (previously projected),
 3. Tsangchow-Shihchiachuang line (previously projected),
- Group II.
 1. Nanking-Changsha line (previously projected),
 2. Nanking-Canton line (combining Swatow-Meih sien, Amoy-Lungyien, Foochow-Nanping, and Hangchow-Changshan lines into one),
 3. Shiuchow-Nanchang line,
 4. Foochow-Nanchang line,
 5. Canton-Yunnan line with a branch to Kweiyang,

¹ There would seem to be a necessity for some basis for these estimates, and for a time within which such a profit is expected to be realized.

² Ministry of Railways, Pamphlet Series No. 2 (in Chinese). An English translation has been printed in *The China Critic* and reproduced in *The China Year Book* (1929-30).

6. Changsha-Yunnan line
(In this group Shiuchow-Nanchang and Foochow-Nanchang are alternative lines to Nanking-Canton line, and Canton-Yunnan alternative to Changsha-Yunnan).
- Group III.
1. Paotou-Ninghsia line (previously projected),
 2. Chengtu-Chungking line (previously projected),
 3. Taokow-Tsinan line (previously projected),
 4. Tatung-Puchow line (previously projected).
- Group IV.
- Paoching-Chinchow line (This line and Changsha-Yunnan line together constitute an alternative line to Canton-Yunnan).¹

These lines are estimated to total 5,378 and 6,102.5 miles. The estimates for construction vary from \$751,521,627 to \$863,329,627. The expected sources of capital are the Boxer Indemnities of Great Britain, Russia, and Italy, which, calculated to the year 1929, amount to \$267,142,812; and customs revenue. Bonds on returned indemnities and customs surplus will be issued.

Sun Fo was interested not only in railways but also in highways. In 1929, when Minister of Railways, he appointed a National Highway Planning Commission in his Ministry, and called a National Highway Conference; after three months' effort the Commission presented plans for a national system of highways.² After having been endorsed by various government bodies, as a result thereof highway laws were promulgated in September 1929, as the first step towards the realization of this national plan.

According to the plan, the following eleven National Roads, which are divided into two classes, namely: China Proper Roads and Frontier Defence Roads, were projected:

1. Nanking-Kwangsi Road,
2. Nanking-Yunnan-Sinkiang Road,
3. Nanking-Tibet Road,
4. Fukien-Sinkiang Road,
5. Nanking-Mongolia Road,
6. Nanking-Heilungkiang Road,
7. Kansu-Suiyuan Road,
8. Kansu-Tibet-Sinkiang Road,
9. Heilungkiang-Mongolia Road
10. Tihwa-Suilai Road,
11. Shensi-Kwangsi Road.

¹ *The China Year Book* (1929-30).

² For further information see Ministry of Railways Pamphlet, Series No. 4: *Plan for the Construction of National Highways by Periods* (in Chinese). *The China Year Book* (1930-31), pp. 315-16, contains a summary of the plan.

In the proposed construction programme the projected trunk roads were divided into four groups: the first two groups constitute the China Proper Roads, while the remainder are the Frontier Defence Roads. The plans call for the supervision by the Ministry of Railways of the construction of 67,553 li of national highway over a period of twenty years. The total cost of construction is estimated at \$364,068,000. It is expected that the first two groups of the China Proper Roads will be completed within ten years.

As far as planning goes, the highway plan comes nearest to scientific planning and is based upon several years' experience of highway construction in the provinces. It is planned to standardize and systematize the universal but scattered efforts for the construction of highways in all parts of China. The division of roads into national, provincial, district, and village, which together form a national network, clearly defines the function of the central or local government organ concerned. Detailed construction costs have been tabulated, standards for various types of civil engineering work have been set, and national highway laws and regulations have been promulgated. Indeed, it is an excellent plan from both the national and technical viewpoints.

OTHER PLANS

Recently a great deal of interest has been aroused in connexion with the development of the north-western part of China, and many schemes for such development have been put forth. It will suffice to call attention to two of them.

The Ministry of Industries has a Four-Year Plan for North-West development.¹ General Liu Chin-hua, formerly Governor of Shensi, announced a Ten-Year Plan for the development of the North-West, to be divided into periods.² The total estimated capital needed for the scheme, including communications, mining, manufacture, colonization, &c., is \$920,000,000.

The National Reconstruction Commission, created in 1928, which if all its paper schemes were put into operation would be a very significant body, has projected several minor plans on certain types of manufacturing and mining, in addition to two big plans, one for National River Conservancy development, and another for National Electrification subdivided into districts.³

Practically every province has an economic plan, and very often more

¹ *The Chinese Economic Bulletin*, vol. xxi, No. 23.

² For details see *Scheme for North-West Development*, by Liu Chin-hua, *Ta Kung Pao*, May 9-15, 1931 (in Chinese).

³ A collection of all the plans of the National Reconstruction Commission, up to 1930, is published by the Commission (in Chinese).

than one. Most of them are paper schemes, and there is no co-ordination among the various provincial plans. Some of them, however, are in actual operation, and will be mentioned later in connexion with construction.

EVALUATION OF CHINESE PLANS

One or two comments on the economic planning as summarized in the foregoing pages will be in order. There are several characteristics of Dr. Sun's plan which have been inherited and developed by his followers in China and which deserve our special mention. First, as in Soviet Russia and later in Mexico, the idea of economic planning was suggested by the effort to promote new economic developments in which industrialization was to play an important part. Second, the plan for economic development, as worked out by Dr. Sun's school, allows for the simultaneous existence of private undertakings and state enterprise; it only covers the latter and is not a plan for the national economy as a whole. Third, the Chinese economic plan from the outset welcomed international co-operation in the forms of capital investment and technical assistance. Fourth, economic planning in China tends to lay emphasis on what is needed to be done, and to neglect the organizational side, how to do it, or the machinery needed to carry out the plan. Fifth, the final objective of creating socialism in China, emphatically announced by Dr. Sun Yat-sen, has caused divergent views among his followers, although the general social purpose of economic planning is still kept in view by all.

The evolution of planning is natural and interesting. It started with Dr. Sun's comprehensive plan, which was narrowed down somewhat in Sun Fo's plan with a time limit and estimated budget; certain selections were made at the Party Congresses, and the ministerial plans further narrowed down the scope by planning for particular industries and regions; finally, the Three-Year Plan of the National Economic Council, 1932, superseded the other plans by merely selecting a few items, indicating the general directions, and leaving detailed plans to be worked out by the various expert commissions. The method of planning as adopted by the National Economic Council seems to be a step farther in the right direction, except that its wide scope of plan and a basis of work which is not unified are distinct drawbacks.

Because of the fact that economic planning is in its infancy in China, and of the unsettled condition of the country, several unavoidable weaknesses have revealed themselves. The most pronounced difficulty is the lack of co-ordination among the various plans proposed. The necessity of making provision for machinery to carry out these plans is generally

overlooked. Then there is the habit of drawing up plans without considering the question of finance. Nobody could be more emphatic than T. V. Soong in advocating co-ordination in planning, when he remarked:

'Reflecting the widening requirements of the public, we have seen each department of the Government proposing its own pet projects, all of them involving huge expenditures. Doubtless many of these projects are in themselves sound, but they must be unrealizable because of the known lack of funds, and the fact that they are not co-ordinated with the projects of other departments.

'Surely a case has been made for discarding the haphazard, unrelated, and clashing programmes of the various branches of the Government, and the creation of a really effective planning organization.'¹

The further criticism may be levelled that the Chinese economic plans are paper schemes so far. We have to recognize the fact that in the past the Chinese Government has played a very insignificant part in economic matters, and even an exercise in economic dreaming is better than the old practice of 'eight-legged' essay writing. The really significant thing is that the Chinese Government, for the first time in history, has shown a real interest in the economic reconstruction of the nation and has entered into an elementary stage of economic planning, opening up enormous potentialities for Chinese experts and foreign friends to assist the Government in putting economic planning on a sound scientific basis.

MACHINERY FOR ECONOMIC PLANNING

The following sections will show what bodies are in process of being created to provide for proper machinery.

Governmental Bodies Concerned with Economic Matters.

In the Central Government, the Ministries which, in one way or another, have responsibilities in economic matters are the Ministry of Industries, the Ministry of Communications, the Ministry of Railways, the Ministry of the Interior, and the Ministry of Finance. In addition to the regular ministries, there are some standing commissions, such as the National Reconstruction Commission, and a number of temporary commissions, such as the Commission on Rural Rehabilitation, recently appointed by the Executive Council. The lines of demarcation between the economic work of these ministries are not clearly drawn, and a certain amount of duplication has been shown. There is need for improving the central administration by some combination and co-ordination.²

¹ *Financial Report of the Eighteenth Fiscal Year of the Republic of China.*

² For details of the departments under the different ministries see *Two Years of Nationalist China*, by M. T. Z. T'au (Shanghai, 1930). The Ministries of Agriculture and Mining, and Commerce and Industry have now been combined into a Ministry of Industry.

The situation in the provinces is more confused on account of the lack of a uniform organization. For instance, three of the northern provinces, Hopei, Shantung, and Shansi, have both Bureaus of Reconstruction and of Industry; some of the central provinces have both Bureaus of Commerce and of Industry, or Bureaus of Agriculture and of Mining, or Bureaus of Industries. These bureaus under different names, doing similar work, are examples of confused local administration. A uniform system of provincial bureaus for economic activities should be established without delay in order to increase efficiency in the colossal task of economic reconstruction.

Conferences and Commissions.

Since the establishment of the National Government at Nanking, the principle of the people's participation in the economic activities of Government has been extensively applied. In the general national conferences 'private bills' for economic planning and reconstruction have been allowed to be presented, though not necessarily to be carried out. Leading citizens, largely bankers, industrialists, and business men, have been invited to participate in important conferences called by the National Government on various aspects of economic life, notably the National Economic Conference in June 1928, the Financial Conference of July 1928, the National Conference on Communications, August 1928, the National Conference on Civilian Aviation, August 1928, the National Highways Conference, February 1929, the Industrial Conference, November 1930, the National Conference on the Unification of Weights and Measures, November 1930, the National Conference on Railways, March 1931, and the recent Conference on Hsien (county) Reconstruction.

Some of the government standing committees with economic interests have included a number of experts. A typical example was the Industrial and Commercial Planning Commission of the Ministry of Industry, Commerce, and Labour in 1928-9, the membership of which was largely composed of bankers, business men, a few professors, but no labour representatives.

The National Reconstruction Commission.

The National Reconstruction Commission, consisting of twenty-nine members, was established by the National Government in the spring of 1928 under the chairmanship of Chang Chin-chiang, who served concurrently as the Chairman of the Chekiang Provincial Government. As defined by the law governing its organization, its functions are:

'1. To study and plan reconstruction works as enumerated in Dr. Sun Yat-sen's "Plans for National Reconstruction";

'2. To undertake works relating to water conservancy, electrical power development, and other governmental enterprises not belonging to the various Ministries of the National Government ;

'3. To direct and supervise privately-owned electrical enterprises ;

'4. To undertake, with the consent of the Ministries concerned, such governmental enterprises as may come under their jurisdiction but have not been started by them ;

'5. To direct and supervise the works undertaken by the Reconstruction Departments of the various Provincial Governments.¹

'The technical work of the Commission is distributed between the Electrical Department and the Conservancy Department. The following institutions also come under its control :

1. Nanking Electricity Works,
2. Tsishuyen Electricity Works,
3. Electrical Manufacturing Works,
4. North China River Commission,
5. Taihu Basin Waterways Commission,
6. Great Eastern Port Development,
7. Great Northern Port Development,
8. First Irrigation District Commission,
9. Chang Hsin Coal Mining Administration,
10. Hwai Nan Coal Mining Administration,
11. Central Forest District Commission.²

Owing to conflicts and duplications with the economic activities of existing ministries, the National Reconstruction Commission has several times undergone a process of reorganization. The administration of the entire radio system was transferred to the Ministry of Communications, the conservancy work to the Ministry of the Interior. The main function of the National Reconstruction Commission has now been restricted to technical planning, but even this phase of work may sooner or later come into conflict with the newly created National Economic Council unless further reorganization takes place.³ Out of the eleven institutions under its control, as listed above, only six now remain :

1. Nanking Electricity Works,
2. Tsishuyen Electricity Works,
3. Electrical Manufacturing Works,
4. The Model Irrigation Administration (reorganized),
5. Chang Hsin Coal Mining Administration,
6. Hwai Nan Coal Mining Administration.

¹ *Two Years of Nationalist China*, Chapter IV, sec. xii.

² *Ibid.*, p. 285. For further information consult reports and publications of the Commission (in Chinese).

³ Cf. chart showing the organization of the National Construction Commission, Tyau, p. 281, with the chart showing the same in *Organization Charts of the National Government and its Committees*, p. 28, Central Bureau of Statistics (Nanking, 1931, Chinese).

Two new institutions have been added:

7. Chekiang Economic Investigation Bureau,
8. Material Purchasing Commission.

The National Economic Council.

Origin. The National Economic Council is by far the most important governmental economic organization and has the greatest possibilities if its efforts are wisely directed. Although the actual creation of the National Economic Council did not take place until the latter part of 1931, the need for such a body had been felt by some of the Kuomintang leaders and government officials several years earlier. At the Fifth Plenary Session of the Central Executive Committee in 1928 two proposals to establish economic planning commissions were introduced.¹ A similar proposal was made at the National People's Conference, 1931.² The most significant pronouncement, however, was delivered by T. V. Soong on March 1, 1931, when the Financial Report of the Eighteenth Fiscal Year of the Republic was submitted to the Political Council of the Central Executive Committee. He spoke of the necessity of 'the creation of a really effective planning organization, which would guide the productive forces of the country, co-ordinate the activities of the Ministries, and rigidly map out the essential ends which for a given course of years each of the different components is obliged to pursue'.³

This feeling of the need for a central planning commission was encouraged and supported by the visits of the technical experts of the League of Nations in the spring of 1931, and resulted in the creation of a National Economic Council for China.⁴ The preliminary steps in preparation for the organization of the National Economic Council were taken in April 1931; regulations governing the organization were promulgated on June 6, 1931; members of the Economic Council were appointed on September 26, 1931; and the first meeting of the Council took place on November 15, 1931.

Organization and Function. The purpose in establishing a National Economic Council, as given in Article I, is to accelerate economic reconstruction, to improve the people's means of livelihood, and to regulate

¹ *Collection of Proposals presented to the Fifth Plenary Session of the Central Executive Committee*, pp. 58 and 102 (Chinese).

² *Main Report of the Record of the National People's Conference*, Part II (Chinese).

³ *Financial Report of the Eighteenth Fiscal Year of the Republic of China* (English and Chinese).

⁴ For the historical relations between the League and the National Economic Council see *The Opening Address delivered at the First Meeting of the National Economic Council on November 15th, in the Twentieth Year of the Republic of China*, by General Chiang Kai-shek (Nanking, 1931).

national finances. All state projects for economic reconstruction which may require government funds must be submitted to the National Economic Council before they can secure government approval. The Council is also empowered to investigate the work and the expenditure involved in the execution of the approved plans.

The membership of the Economic Council is composed of (a) *ex officio*: the President and Vice-President of the Executive Yuan, the Ministers of Interior, Finance, Railways, Communications, Industries, and Education, as well as the responsible heads of the various central government organs connected with economic reconstruction; (b) appointed members, whose number is limited to eleven, largely chosen from among bankers and industrialists.

Provision for the organization of technical committees is also made in the regulations. Five such committees have actually been constituted thus far, namely, the Seven Provinces Highways Technical Committee, the Emergency Technical Committee, the Health Technical Committee, the Education Technical Committee, and the Rural Reconstruction Technical Committee.¹

Collaboration with the League of Nations. The Chinese Government request in April 1931 to the Secretariat of the League of Nations for co-operation in economic reconstruction covers the following points:

‘(a) First, in the stage of first planning and organization, the League might be able to send some one as it has already done in the special domain of health work for such limited period as might be practicable and convenient to the Government in order to help with his advice both as to the plan itself and as to any subsequent methods by which the League could assist it.

‘(b) Secondly, in the execution of particular projects, the League might at the request of the Government send or propose officers, representatives, or experts who apart from their own competence could be in contact with the relevant technical organization in Geneva.

‘(c) Thirdly, in appropriate special cases, a League Committee, whether a standing committee or one appointed *ad hoc*, might at the request of the Government help to frame or improve some particular scheme.

‘(d) Fourthly, the League might in several ways help in the training of China’s own officers who will be required for the more extended work of later years. In the domain of health the League has already been able to arrange for technical education in practical work in other countries, sometimes with the aid of Fellowships.

‘(e) And in addition the League might help the Government to find

¹ *First Collection of Regulations Governing the National Economic Council and its Committees* (Nanking, Dec. 1932, Chinese). Dr. Elli Linder (League of Nations, *Review of the Economic Councils in the Different Countries of the World*) has a somewhat different list.

advisers to assist the development of the Chinese educational system and facilitate the intercourse between the centres of intellectual activity in China and abroad.

'(f) Lastly, China might sometimes desire to initiate League action in some sphere in which co-operation or the co-ordination of the policy of a number of countries might be required in order to remove some obstacle to China's development.'¹

Subsequently, several technical commissions from the League have visited China. In addition to the experts on health, communications, and finance, distinguished specialists in education, agriculture, silk, tea, &c., have come from Europe to China to assist the National Economic Council in studying the problems and determining policies and making plans.

It is hoped that the National Economic Council will be able to function as the supreme body in government economic planning and reconstruction according to the regulations laid down. But an absolutely essential prerequisite is the reorganization of the central as well as the provincial governmental organs which have charge of economic reconstruction into a co-ordinated system, with their relation to the National Economic Council clearly defined. Another problem which needs to be considered is the relation between private enterprise and state enterprise. It would be desirable to bring the two together into one national economic system, rather than to have them develop independently side by side.

ECONOMIC RECONSTRUCTION SINCE 1927²

Initial Steps taken towards Economic Reconstruction.

The National Government, despite all difficulties and opposition, has courageously taken steps to clear away some of the age-long hindrances, and to lay a sound foundation for economic reconstruction in China. Tariff autonomy was restored from February 1929, and a slight measure of 'safeguarding' of Chinese industries has been initiated. Certain economic rights lost through the grant of special privileges to foreigners under treaties and contracts, such as navigation rights and telegraphic communication, have been recovered by the Government. Comparatively fair and 'equal' commercial treaties have been concluded with foreign countries. Internally, the notorious *likin* was abolished in

¹ *The Opening Address*, pp. 8-9.

² As the facts presented in this paper are chiefly drawn from the official sources, and statistical work in China is still in its infancy, they can only be regarded as indications of general trends, and no absolute accuracy is guaranteed. Certain private efforts in economic reconstruction are outside the scope of this paper.

January 1931. The policy for the free movement of rice over the whole country was announced this year (1933). Taxes on certain industries and trades have been somewhat reduced. The practice of publishing an annual budget was adopted in 1928. There is strong reason to believe that the Government is aiming at the establishment of a sound financial policy, and a beginning has been made, although much still remains to be done.

Unification in elementary economic practice is necessary as a basis for economic reconstruction; the National Government has done several important things in this respect. The Government Commission on the Unification of Weights and Measures has been at work for several years, although actual enforcement is called for in three stages, beginning with 1930 and ending in 1933.

Another significant step taken is the abolition of the confusing *tael*, which has been replaced by the national dollar. A national mint, said to be the largest silver mint in the world,¹ was established in 1929, although actual coining has only just started (May 1933). With the establishment of the Central Bank of China in 1928, the reorganization of the Bank of China and the Bank of Communications, and the proposals of the Kemmerer Commission, the Government is working on a banking policy which may lead to the unification of the paper currency and to other phases of monetary reform. A beginning has also been made in the centralization and standardization of government accounts and statistical work by the creation, in 1930, of the *Chu Chi Ch'u*, which will make possible comparison, analysis, and interpretation of government efforts in economic planning and reconstruction. Besides these, the Government is actively engaged in promoting trade and industry and in conducting relief work.

Nation-wide Economic Reconstruction.

COMMUNICATIONS

*Telegraphs.*² Radio telegraphy before 1928 was confined to military use. The entire system has been developed during the last four years. Twelve out of the ninety-six stations are for international service. The installation of the R.C.A. (Radio Corporation of America) system has been opened for traffic with San Francisco, and the German system with Berlin, since December 6, 1930; the French system with Ste Assise, Paris, since February 19, 1931; and the Telefunken system with the Philippines and Java since April 7, 1930.

¹ J. B. Condliffe, *China To-day: Economic*, Boston, 1932, p. 82.

² *Annual Statistical Reports of Communications*, 1928-32, published by the Ministry of Communications (Chinese).

LENGTH OF TELEGRAPH LINES IN OPERATION

	1928	June 1932
Aerial lines	99,790.00 km.	99,124.50 km. ¹
Underground cables	16.70 „	29.66 „
Submarine cables	87.92 „	3,442.70 „
Radio stations	22 stations	96 stations ²

Aviation. In the last few years a great deal of interest has been taken in aviation. Starting with military aviation, distinct advances have been made in spite of political and financial difficulties. A beginning in civil aviation has also been made. The two present Sino-Foreign operating lines, sponsored by the Chinese Government in co-operation with American and German interests, organized the China National Aviation Corporation and the Eurasia Aviation Corporation respectively. The Sino-American air-route was opened to traffic in 1931, and has two lines operating: the Shanghai-Chungking line, 1,652 km., later to be extended to Chengtu, and the Shanghai-Peiping line, 1,332 km. There is also a projected Shanghai-Canton line of 1,457 km.

The Sino-German air-route was started in 1930 and has two operating lines, the Nanking-Lanchow line, 1,580 km., and the Peiping-Tihwa line, 3,780 km. The latter will soon be extended to Tacheng, thence to Europe through Russia, satisfactory arrangements having been made with the Soviet authorities. A projected line from Hankow to Canton to be connected with the Peiping-Tihwa and the Nanking-Lanchow lines through Siam, will be carried out within the year, according to information obtained through the manager of the Corporation.

Railways. Railways have been seriously damaged in the last few years as a consequence of civil war. Accordingly, the Ministry of Railways is busily engaged in repairing and reorganizing work. Despite many political and financial difficulties during recent years, the Government has been able to complete 346 km. of railways between 1929 and 1932, while another 410 km. are under construction.

RAILWAYS COMPLETED

National Railways

Lingpao-Tungkwan (Lunghai Railway), 72 km., open to traffic December 1931;

Tungkwan-Hwayin (Lunghai Railway), 24 km.;

¹ Tyau, *op. cit.*, p. 223, gives the total of 167 stations, civil as well as military, for 1929. The above figures are for civil stations only.

² One of the effects of the civil wars has been the destruction of telegraph lines. The figures for 1932 include both the new and repaired lines, but they have not yet reached the total length in 1928.

Shiuchow-Lokchong (Canton-Hankow Railway), 50 km., open to traffic May 1933.

Provincial Railways

Siaoshan-Lanchi (Hangchow-Kiangshan), 200 km.

RAILWAYS IN THE PROCESS OF CONSTRUCTION

National Railways

Lokchong-Tashihmen (Canton-Hankow Railway), 45 km.;

Hwayin-Weinan (Lunghai Railway), 49 km.;

Yutzu-Taiku (Tatung-Tungkwan Railway), 35 km.;

Taiku-Pingyao (Tatung-Tungkwan Railway), 45 km.

Provincial Railways

Kinhwa-Yushan (Hangchow-Kiangshan Railway), 155 km.

Private Railways

Wuhu-Sunkiapu (Wuhu-Chapoo Railway), 81 km.¹

There are several projected lines, mainly in the South-Western and Chekiang Provinces; and 5,000 km. of the Hunan-Yunnan line have already been surveyed. The Nanking-Pukow Ferry also needs to be mentioned. The ferry was made in England, and the construction work began in December 1930. It will be ready for use by June 1933.

Highways. The construction of highways is being extensively carried out by the Central as well as Local Governments in close co-operation with voluntary organizations, such as the National Road Association. The lengths of roads completed, according to the National Road Association, are as follows:

1926	26,111 km.
1927	29,170 „
1928	30,550 „
1929	34,444 „
1930	46,666 „
1931	66,111 „
1932	80,899 „
1933 (March)	81,278 „

RIVER CONSERVANCY AND HARBOURS

The regulation of rivers is one of the few economic problems in which the Chinese Government in the past was interested. In recent years millions of dollars have been spent for this purpose. Since most of the funds have come from Provincial Governments, the administration is largely in the hands of local conservancy bureaus and other similar

¹ *Chinese Economic Bulletin*, vol. xxii, No. 16, Apr. 22, 1933, p. 247.

bodies. The Central Government, however, has subsidized certain local projects, and controlled the work on the Yangtze and Huai rivers. The construction of the Great Northern Port and the Great Eastern Port are now under the joint control of the Ministries of Railways and Communications. The following table gives the amount of money spent on some of the important works:¹

The Yunting Ho (Hopei Province), 1929-31	\$936,402
The Ching Ho (Shensi Province), 1931-2	\$948,587
The Kiangsu Section of the Canal, 1932	\$3,520,000
The Hai Ho (Hopei Province), 1930-2	\$3,267,604
The Yangtze and the Huai (after the floods), 1930-2	\$17,000,000

The annual expenditure for river work in the northern and central provinces varies between \$490,000 in Honan and \$189,000 in Chekiang. A total of \$8,247,200 was spent in Shantung from 1931 to 1933.

RURAL REFORM

*Rural Credit.*² Farmers' banks have been established in Kiangsu, Chekiang, and Kiangsi, while in other provinces they are in process of organization. Rural co-operative societies are distributed as follows:

	<i>Number of Societies</i>	<i>Membership</i>
Neighbourhood of Nanking	24	386
Ho Hsien, Anhui . . .	38	520
(The societies in the above two places are organized by the Central Government.)		
Kiangsu	628	30,257
Chekiang	452	19,640
Hopei	504	21,046
Shantung	9	156
Kiangsi	1,087	50,837 ³
Total	2,742	122,842 ⁴

The societies organized in Fukien, Anhui, and other provinces have not yet reported to the Ministry of Industries.

Agricultural Extension and Promotion. A Central Agricultural Extension Committee was appointed in October 1929, and is now in charge of

¹ Figures supplied by the Ministry of the Interior.

² Information given by the Ministry of Industries—manuscript of the *China Economic Year Book* (Chinese).

³ Figures obtained from the Kiangsi Provincial Government.

⁴ The above figures seem to be confined to Government rural co-operatives. The latest figures for the whole country give nearly 3,000 societies with a membership of almost 1,000,000. The figures for some of the provinces are also different.

the Wookiang Agricultural Extension District and the Central Model Agricultural Extension District. An Agricultural Extension Law was promulgated in August 1929, and a national agricultural extension programme was adopted. Provincial Agricultural Extension Bureaus have been established in Kiangsu, Anhui, Chekiang, Shansi, Szechuan, Hopei, Honan, Kwantung, and Yunnan; other provinces will soon follow suit.

Farmers' Organizations. With the promulgation of the Farmers' Organization Law in January 1931, farmers have been encouraged to organize themselves into unions. Up to the present time, the registered farmers' unions number 11,137, spread over seventeen provinces.

Silk-egg Inspection. The following number of silk-egg farms have been inspected: 113 in Kiangsu, 46 in Chekiang, and 3 in Anhui.

Experiment Stations. Sixty-two agricultural experiment stations have been established in the country, of which two belong to the Central Government and the rest are provincial.

Afforestation. A vigorous movement for afforestation has been successfully launched by the Government. The following table shows the total result in the twenty-five provinces:

<i>Number of Trees Planted</i>					
1929	.	.	.	.	5,914,261
1930	.	.	.	.	2,519,412
1931	.	.	.	.	45,592,292
Total					54,025,965

Other Reforms. A plan for a land survey of the whole country has been announced by the Government, but on account of financial difficulties only a beginning has been made in the eighteen provinces.¹ Measures to protect and improve fisheries have been worked out by the Ministry of Industry. Schemes for improving the two ancient agricultural industries of silk and tea are under consideration.

STATE INDUSTRIES

'*The Big Five.*' The most important state industrial undertakings are the five big factories under the auspices of the Ministry of Industries,² viz.:

The Central Machine Shops at Nanking, with a capitalization of \$2,500,000 from the British Indemnity Fund for the purchase of

¹ Detailed information has been supplied by the Ministry of the Interior.

² Information given by the Ministry of Industries.

machines in England. Steps have been taken in regard to building the factory and purchasing machinery.

The State Steel Works. A draft contract has been signed between the Chinese Government and a German syndicate. The latter will finance the plant in the form of a loan from \$16,000,000 (gold) to \$20,000,000 (gold.) The German syndicate has agreed to advance \$100,000 (silver) for preliminary experiments in testing coal.

The State Sulphuric Acid Manufactory. The estimated capital is \$15,000,000, of which the Chinese shares will be more than half, the rest being expected from foreign sources. Preliminary steps have been taken in inspecting the sources for supply of raw material by the Government in co-operation with the British Imperial Chemical Industries Inc., Ltd., and the I. G. Farbenindustrie A.G.

The State Alcohol Distillery. The approved plan calls for a capital of \$250,000, of which the Government will contribute \$100,000 and the merchants \$150,000. £6,300 from the British Indemnity Funds has been agreed upon to be used for this purpose, as the Government's expected share.

The State Paper Mill. Experts have been sent to Chekiang to investigate the possibility of establishing a state paper mill in that province. Plans will be made in accordance with their report.

State Mining Enterprises. The Chang Hsin Coal Administration and the Hwai Nan Coal Mining Administration are under the control of the National Reconstruction Commission. Aluminium and tungsten mines are nationalized in two places, according to the right reserved by the Government as stated in Article X of the Mining Law. In order to carry out the general policy of state monopoly of tungsten mines, some of the mines in Kiangsu were taken over from the Provincial Government in February 1933. The Ministry of Industries proposes to use \$6,000,000 as the initial capital for mining in that province. In March 1933 the aluminium mines in Shantung were also reserved by the National Government for state mining in the near future. The Hunan Provincial Government, in co-operation with the Ministry of War, is now working on zinc refining with a capital of \$100,000 loaned by the Ministry. The organization of the zinc refineries was begun in the autumn of 1932, and production will start from June 1933.

The Woollen Factory. The Ching Ho Woollen Factory under the control of the Ministry of War, established near Peking towards the end of the Ch'ing Dynasty, was originally intended as a part of the system for military supplies, but recently has engaged in manufacturing woollen

cloth for commercial purposes as well, with a monthly output of 40,000 yards.

The Airplane Factory. An airplane factory under the control of the Naval Ministry, formerly located in Foochow, has recently been moved to Shanghai. This is one of the newest ventures undertaken by the Government.

Shipping. The China Merchant Steamship Company, which was one of the pioneer works in modern industry in Li Hung-chang's time, and has a large amount of government capital invested in it, was brought under the direct control and management of the Government in November 1932, by the purchase of the merchants' shares.

Locomotives. A significant occurrence in the history of railways in China was the construction of four locomotives for freight trains in the winter of 1931, and two locomotives for passenger trains in November 1932, by the well-known Tangshan railway shop. Their success has been recognized by both Chinese and foreign experts.

Economic Reconstruction in the Districts Evacuated by the Bandits.

One of the important tasks in which the National Government has been actively engaged is military operation against bandits and 'communists'. The success of the National Army, especially in Hupei, has created the immediate problem of economic reconstruction in the districts devastated by the bandits. Policies for economic reform have been announced and carried out by the staff of the head-quarters of the Generalissimo of the Army for the Suppression of Banditry in the Three Provinces of Hunan, Hupeh, and Anhui, at Hankow, since October 1932. Three major economic reforms deserve our consideration, namely: the redistribution of land, the organization of rural credit, and the construction of highways; while space does not permit us to enter in detail into other minor reforms, such as the suspension of land taxes, conservancy and irrigation work, suppression of opium cultivation, financial reform, rural education, &c.¹

Redistribution of Land. Pending the organization of co-operative societies, Rural Revival Commissions have been set up in *hsien* (counties), sub-districts, and villages devastated by the bandits, to handle the problems of settling land ownership, credit, rent, and co-operation. Upon production of satisfactory evidence, the original holding will be

¹ For those who are interested in these matters, the *Collection of the New Regulations Dealing with Party, Political, and Military Affairs* issued by the Generalissimo of the Army for the Suppression of Banditry in the Three Provinces of Hupei, Hunan and Anhui (already six numbers issued) or the *Political Affairs Weekly* by the same head-quarters, may be consulted (Chinese).

restored to the private owners within certain limits. Unclaimed land, or that for which no satisfactory evidence can be produced, will be held by the Commission temporarily, and after three years public ownership will be declared. The land held in common will be distributed to the completely landless or to those with insufficient holdings. Certain limits are set to the size of the landholdings owned: for private land between 100 and 200 *mow*, according to the quality of the land and other details laid down in the regulations. For public land the minimum per person is 2 *mow*, and the maximum 6 *mow*; while the minimum per family is 8 *mow*, and the maximum 20 *mow*. A system of differential income tax in proportion to the size of the landholding is enforced. Provisions are made for reducing or suspending rent, for credit facilities, and for co-operation.¹

Rural Credit. A system of rural credit relief, with head-quarters at Hankow and branches, has been established in fifteen *hsien* up to February 1933. The working capital is \$1,000,000. Farmers, when applying for loans, are requested to organize preparatory co-operative societies. The loans must be used for productive purposes, as specified by the regulations. The maximum amount of a loan is \$30 per member, with 10 per cent. interest per annum.² As a permanent policy, steps have been taken to organize farmers' banks in Honan, Hupei, Anhui, and Kiangsi, with \$10,000,000 capital. The Four Provinces' Farmers' Bank was opened in Hankow on April 1, 1933, with \$3,000,000 paid-up capital. The preparatory co-operative societies are allowed to exist for only one year. After that time, rural credit co-operative societies must be organized to take their place. Since December 1932, training classes for co-operative organizers have been conducted. Regulations governing the organization of credit, purchasing, and supplies of co-operative societies have been promulgated.³

Highway Construction in the Seven Provinces. In February 1933, the Head-quarters of the Generalissimo of the Army for the Suppression of Banditry called a conference of a Technical Commission for the Construction of Highways in the Seven Provinces (Honan, Hupei, Anhui, Kiangsi, Kiangsu, Chekiang, and Hunan). The co-ordinated plan for highway construction under the supervision of the National Economic Council was agreed upon and is one of the biggest inter-provincial enterprises in the last four years. The plan is to construct a system of highways of about 20,000 km. Sixty per cent. of the budget will come from the Provincial Governments; and 40 per cent. will be loaned by the National Economic Council. During the first period, 1,481 km. at a

¹ For further information see *Collection of New Regulations*, No. 3 (Chinese), sixty-six articles in all.

² *Ibid.*, No. 4 (Chinese).

³ *Ibid.*, No. 4.

total cost of \$5,664,500 will be constructed. The work was already started by the respective Provincial Governments before the conference took place, and the major part has been completed. The second period of construction, according to the plan, began from the date of the conference (February 1933) and is to be completed at the end of this year, covering a total length of 7,115 km., with a budget of \$30,615,000.¹ In several provinces soldiers are used in the construction of roads.

A plan of military colonization in the districts devastated by the bandits and the 'communists' has been worked out, and a small beginning has been made.²

These experiments in economic reform in the districts evacuated by the bandits started from Hupei and gradually spread into other provinces. For some phases of their programme three or four provinces united, or, as shown above in the case of highway construction, as many as seven provinces came together. Some of the experiments first attempted in the Yangtze valley have since been reproduced in other provinces, especially in the western part of Fukien. This is a hopeful sign. One can see the process of national unification at work through these combined efforts in economic reconstruction. Their successes as well as their failures should be a lesson for other provinces. As a matter of general policy, however, the aim of the Government must be the creation of a new and better economic life in these provinces by even more radical changes, rather than merely to restore them to their old condition.

Economic Reconstruction in the Provinces.

The General Movement. Highways, conservancy, co-operative societies, and to a large extent, rural reform, have become matters of common interest to the provinces. In the construction of highways up to the end of March 1933, Kwangtung with 7,961 km. leads the way; next come Szechuan, 4,697 km.; Chahar, 3,898 km.; Kwangsi, 3,020 km., and Shantung, 2,758 km.³ Although different sources give different figures for co-operative societies, the general impression seems to be that Kiangsu, Chekiang, Shantung, and Hopei take top place both for large numbers and effective organization. The recent effort in promoting co-operative societies in the provinces which have suffered from banditry may yield rapid results in the immediate future. As to the interest in conservancy, the chief efforts along this line are in those provinces in

¹ *Second Collection of the Minutes of the National Economic Council.* See also *Collection of New Regulations*, No. 6 (Chinese).

² For regulations governing military colonization, see *Collection of New Regulations*, No. 3 (Chinese).

³ Figures supplied by the National Road Association.

the valleys of the Yangtze, the Huang Ho, and the Huai rivers in connexion with flood prevention ; but irrigation and river control are problems for all provinces. With regard to rural reform, widespread interest prevails in all provinces, but owing to the technical and complicated nature of the problem only a few provinces are carrying on actual experiments.

Special Experiments in Some Provinces. In addition to the general movement, a few experiments are worth special attention. Towards the end of 1930, some preparatory work was done for the Institute of Rural Reconstruction in Shantung, and in February 1931 the Institute was legally constituted. Students recruited from various *hsien* of the province are trained in the Institute to enable them to tackle various phases of rural work. An experimental district has been organized at Chouping Hsien under the direction of the Institute. Recently the Provincial Bureau of Industry has put forward a concrete plan for improving agriculture and supplementary industries. This plan has been under discussion for more than a year and will soon be put into practice.

An agricultural implements factory in Kiangsu was formally opened in February 1929, with a capital of \$250,000 from the Provincial Treasury. Various kinds of agricultural implements have been manufactured. On account of financial and other difficulties, the factory is in a rather precarious situation. A new cement works was established at Canton in 1930 with a capital of nearly two million dollars. Chekiang has been one of the enterprising provinces in economic reconstruction in recent years, with a many-sided development. A new power station has been established at Hangchow. This, together with the old small stations, gives a total of 22,100 kw. for the province. The Kiangsu Farmers' Bank was opened in July 1928, having the honour of being the first farmers' bank in China, and giving credit facilities only to farmers. The total loans to farmers up to June 1931 amount to \$1,504,582. There are 1,100 co-operative societies connected with the Bank. The Chekiang Farmers' Bank was established somewhat later. The total amount of money loaned out was \$707,000 up to the end of 1931. Because of the successful experiments in these two provinces the farmers' bank movement is spreading to other provinces. The Economic Reconstruction Committee at Taiyuan, capital of Shansi, has recently established a Bureau of Controlled Economy to plan for the economic development of Shansi and Suiyuan. The following nine proposals are announced: to organize the thirteen million Shansi people for economic production, to promote co-operative societies, to develop public enterprise, to safeguard native industries, to promote and protect agriculture, to industrialize the whole

province, to reform the monetary system, to regulate the high rates of interest, to 'labourize' all the people in the province. How far this programme can be carried out remains to be seen. Nevertheless, a plan for the large-scale promotion of village weaving in fourteen *hsien* has been worked out, and some preparatory steps have been taken in the hope that the first part of the plan may be carried out by March 1934.

The Three Eastern Provinces (Manchuria). Prior to the Japanese military occupation, the Three Eastern Provinces had accomplished a great deal in the way of economic reconstruction. The North-Eastern River Conservancy Bureau was established in 1928, and since that date \$5,400,000 has been spent in conservancy work. The North-Eastern Shipyard constructed twenty-nine river steamers from 1928 to 1930. Before 1929 only a few radio stations were in existence, but between 1930 and the first half of 1931 fifteen radio stations were installed. The Government possessed 300 airplanes and an airplane factory. The construction of railways, beginning from 1925-6, and completed in 1929, totalled 1,189 km., and 380 km. under construction. A beginning in the construction of the Hulutao harbour was made in July 1930. The North-Eastern Mining Administration had charge of six mines, largely coal, with a total capital of \$5,410,000. All these constructive efforts and other plans under execution were suspended owing to foreign invasion.¹

Relation of Planning to Reconstruction.

Economic reconstruction by the Chinese Government, National as well as Provincial, in the last five years, is as nothing compared with the Russian Five-Year Plan, but it is a very significant thing for China: significant because it is the first government in the long history of China that has definitely and seriously taken up the responsibility of economic reconstruction of such magnitude; significant because, despite political upheaval, civil wars, extreme financial difficulty, foreign invasions, and natural calamities in the forms of devastating floods and famines, the Chinese Government has kept ever before it the task of economic reconstruction. Indeed, it is a matter for surprise that the Chinese Government has been able to do what it has in economic reconstruction in view of the obstacles that it has had to face. Instead of blind criticism for not having done more, due credit should be given to the Government for the work it has already accomplished.

The questions may be asked: What is the relation of economic planning to reconstruction in China? How far has planning proved useful? It is true that many plans drawn up have not yet materialized, and some of the reconstruction work is not exactly according to the plan; but

¹ Source of information: *The North-Eastern Year Book* (Chinese), 1931.

certain plans are actually in operation and have a direct bearing upon the programme of economic reconstruction. The best example is the highways plan. By means of grants and aids, the enforcing of the Highway Law, and controlling the construction of the national and provincial roads, the district and village roads have naturally fallen into line with the national scheme. Because it is a state enterprise and therefore can be easily regulated, the railway plan is being carried out, though very slowly. River conservancy and harbour development are largely being carried out according to plan. The five state industrial enterprises in the process of organization are the beginning of the realization of the Four-Year Plan of the Ministry of Industries. Finally, the plans for reconstruction in the provinces devastated by the bandits are gradually being realized. So planning in China is not altogether on paper, and its usefulness to reconstruction has been demonstrated.

PROBLEMS AND POSSIBILITIES

From the foregoing pages on the Chinese Government's efforts in recent years to reconstruct economic life, one general conclusion may be reached: a strong belief in national economic planning is clearly manifested. With rich natural resources and an adequate labour supply, the potentialities of national economic planning as a means of fostering economic development in China are enormous. Aside from the question of capital, the essential problem seems to be bound up with human rather than with natural resources. Lately, a good deal of discussion has been focused on the question of the adequacy of the iron supply. Important as this is to the industrial life of the nation, I do not feel that the iron situation is an insoluble one, especially during these early stages of industrialization. Experiences in other countries show that there are ways and means to get over the difficulty of scanty mineral supply—for instance, by the importation of foreign ores, the regulation of consumption, substitution of other metals, &c. The real issue at stake, as I see it, is the question of economic organization. How can a civilization of peasant farmers, handicraftsmen, small traders, with its intelligentsia not yet free from the influence of the separation of hand from brain and the old tradition of government irresponsibility for economic matters, be changed into a modern civilization with engineers, mechanics, scientists, efficient administrators, and economic organizers? National economic planning, in the real sense of the word, when properly introduced and faithfully carried out, will be a very effective means of assisting China in its economic transformation. But the problems involved in the application of economic planning methods in China are just as great and numerous as its possibilities. Taking China as it is, and the

Government interest in economic planning as expressed, the following principles are suggested as a basis for discussion which, I hope, will prove useful in helping to put the development of a national economy on a sound basis.

OBJECTIVES OF ECONOMIC PLANNING

1. *A definite goal towards which all efforts and energies of planning should be directed must be definitely agreed upon.*

The reason for this is self-evident, for economic planning is an attempt to mobilize and co-ordinate various economic forces and activities of a nation under a plan, and the question: 'planning for what?' must be discussed first, before any plan is drawn up.

There seems to have been a prevailing tendency in the China of to-day to avoid facing the issue raised by the fundamental question of what kind of economic system China is going to develop. As far as the proposed economic plans are concerned, the ambition of planners seems to have been to copy from Dr. Sun Yat-sen rather than to plan for China. Professor R. H. Tawney's suggestion of a 'piecemeal' policy for China,¹ which is typically English, and may be useful in some cases, and the absence of any discussion in his book on the future of economic systems, which is quite natural for a foreign visitor, does not minimize the importance of the subject. While it is true that nobody is able to foresee what kind of economic system China is ultimately to develop, the economic planners must look ahead towards the direction in which their plan is leading, for at least a decade or so. Just as different cultures have produced different forms of capitalism, so will economic planning evolve its own national forms. Neither Russian Communism nor Italian Fascism could be immediately introduced into China, for both presuppose a strong political party and an effective administration, which are not in existence in China just now. Capitalism, too, would have a hard struggle to establish itself on Chinese soil, and it is doubtful whether it could stay. There is but one economic system which is endorsed in many quarters in China, namely, co-operation, because the principle of co-operation is in harmony with Chinese social and economic ideas and practices. It would take a few generations before Chinese co-operators would be able to look after their own interests, as the Danish co-operators do to-day. Exactly here is the golden opportunity for the Government, provided an effective administration and a strong and capable personnel can be developed, to take the lead in developing a new economic system in China.

Economic planning is not merely economic in the narrow sense of the

¹ Tawney, R. H., *Land and Labour in China* (London, 1932), pp. 101 and 169.

term, and might better be called social-economic planning, for it has social and cultural aspects. A primary aim of economic planning is to increase production, not as an end in itself, but for the purpose of better living conditions; not only to raise the standard of living, but also to change the life and culture of the people. The social and cultural aspects should be planned and co-ordinated with economic activities. Any general plan for a national economy which neglects these important phases of planning is doomed to fail in the long run.

2. *In the Chinese economy, the relative importance between, and the relation of, state enterprises and private enterprises should be clearly worked out, in order to avoid unnecessary conflict, and to increase efficiency.*

Once the goal is determined, this problem can be easily solved. The difficulties would come from foreign private enterprises in China, which will not be considered here. As to the relation between the Chinese state and private enterprises, it is desirable to have early co-ordination of these two groups of economic activities. The tendency of the state enterprises is towards large-scale development, while the dominating feature of the private enterprises is still their small scale. Whether the inherent weakness of bureaucracy and inefficiency of state enterprises, and the failure of the Chinese Government in the past to run business, can be avoided in these new state industries or not remains to be seen. On the other hand, a more definite policy for the private enterprises should be laid down by the Government, and vigorously carried out.

METHODS OF ECONOMIC PLANNING

3. *Economic Planning is the very antithesis of competition, overlapping, and independent planning.*

The experience of Soviet Russia has convinced us of the importance and advantages of one big central plan. It took Russia five years and the experience of several stages of development to evolve a single system of planning in 1925 by means of control figures. It would be a big step forward in national economic planning if the Kuomintang party leaders and Government officials could agree on a central plan to be worked out by some sort of *Gosplan*, the State Planning Commission, and, following that, each interested ministry or other governmental body to work out separate detailed plans to carry out the united central plan.

4. *When a unified plan is drawn up, it is necessary to have indication of priorities.*

The general trend of all economic plans in China rightly is to emphasize the development of communications as of primary importance.

Chen Kung-po's Four-Year Industrial Plan begins with five factors: a machine shop, an iron foundry, a sulphuric acid manufactory, a cotton mill, and an alcohol distillery. Professor C. T. Dragoni, the League of Nations' agricultural expert to China, suggested a list of eight items, namely, research, rural credit and co-operation, land tenure, cultivation of tea, recovery of land occupied by graves, colonization of uncultivated land, rural reconstruction of the regions devastated by bandits, and statistics of annual crops, as agricultural problems which need immediate attention. All these and possibly other proposals should be carefully considered and co-ordinated into a general plan.

5. *The principle of local or regional specialization should be recognized in economic planning.*

To plan for China is as difficult as to plan for Europe. One Pan-European planner is content to begin with Belgium, Holland, Luxemburg, France, Italy, and Switzerland; Spain and the countries of central and northern Europe might be tackled at a subsequent time, and England still later.¹ Probably this is the very road by which planning in China should travel. There is a great deal to be said for Chen Kung-po's plan, using the Yangtze valley as a centre for industrial development, but not to the extent of giving up the 'primitive' North, as suggested by Mr. R. H. Tawney.² Perhaps it might be possible to select a few items, such as roads and other means of communication, to be universally applied to the whole country, and for experiments on other lines to be conducted in different regions.

The technique for economic planning must be worked out through experimentation somewhere, and the resulting experience would assist in extending planning to other fields and regions. It is through the principle of regional decentralization with a centralized co-ordination that the future national economy of China will develop.

6. *An effective organization must be established as the machinery to undertake economic planning.*

The recently created National Economic Council has in certain quarters been looked upon almost as a panacea for all the ills in China. Space does not permit a discussion of the pros and cons of different types of national economic councils, their suitability to Chinese conditions, and the various problems connected with the inception of a National

¹ 'A Ten-Year Plan' (Europe). By Léon Hénnebicq, *Révue Economique Internationale*, October 1931. An English translation is found in *The Annals of the American Academy of Political and Social Science*, July 1932, pp. 78-9.

² *Land and Labour in China*, p. 170.

Economic Council in China; but a few conditions of success for the organization and working of such a body in China may be listed below:

a. A National Economic Council is a scientific, technical, expert body, and not just an ordinary *yamen*; the organization, administration, and personnel both in the council and the permanent staff must be chosen with this idea in mind.

b. The advisory and executive power in the Council must be clearly and separately defined.

c. The National Economic Council should be supreme over other governmental bodies, and should not become merely one of the many ministries, committees, or boards dealing with economic matters.

d. A definite relation between the Economic Council and private collective economic organizations should be established.

e. Its activities should be concentrated along a few general lines rather than broadened out to cover every phase of national life.

f. A system of local economic councils should be developed as an integral part of the whole national system of planning, to carry out the agreed plan and to be responsible to the National Economic Council in the work of economic reconstruction.

g. Experiences of the same machinery in other countries should be carefully studied, with the aim to develop a genuine Chinese National Economic Council suitable to Chinese social structure and economic life, not an imported Council, which will fail as so many other Western political and social institutions have failed in China.

7. *Co-ordination is a prerequisite for effective administration.*

The principle of co-ordination in economic planning has been well established in Russia. The industries, the co-operatives, the banks, the trade unions, the economic commissariats, the local soviets, and the scientific institutions participate in the drafting and execution of the nation-wide social-economic plan. *Gosplan* and the Supreme Economic Council direct and co-ordinate all economic activities. At the same time, the system of counter-planning, widely developed in the Soviet enterprises, enables the workers themselves to check and elaborate the control figures of their enterprises and to modify general plans on the basis of their immediate knowledge and experience.¹ Over against the Russian picture, the lack of co-ordination in the central administration in China,

¹ 'Prerequisites and Aims of Soviet Planning', by Peter A. Bogdanov, *The Annals*, July 1932.

not to speak of local and voluntary agencies, is vividly described by Professor Dragoni in connexion with agriculture, thus:

‘This necessity of co-ordination is found also in the central administration. Many departments of the various Ministries deal with questions concerning agriculture. For instance, the Ministry of the Interior has a Department of Civil Affairs, and a Land Department, to deal with the investigation of local food-supplies, the survey and registration of all lands; the opening up, exchange, and transfer and preservation of public land; investigation and determination of land prices; alteration of land taxes; relation between landlord and tenant; internal migration, planning of reclamation and conservancy; prevention of floods, registration of water rights, &c. It comprises also the Department of Statistics. In the Ministry of Finance there is the Department of Taxation; and the Ministry of Education, the Ministry of Communications, the Ministry of Railways, and the Ministry of Public Health all deal with matters pertaining to the most vital interest of the agricultural classes. Particularly the Ministry of Industry, in the three Departments of Agricultural Administration, of Forestry and Colonization, and of Labour, plays a more important part than any other for the future of agriculture.

‘But all questions, if they can be well defined as practical questions, are so interrelated that in order to attain a real unity in public policy concerning agriculture it is necessary to take account of each of them in examining the general question. Also from this point of view, a connecting body which furnishes the means for common discussion is a real need for the organization of administrative machinery.’¹

What is true of agriculture applies also to other aspects of economic activities of the Government. Although China cannot easily develop a system of co-ordination of all economic activities, like Russia, yet, as Professor Tawney rightly insists, economic reconstruction in China necessarily involves reconstruction of government machinery.²

8. *Economic planning and reconstruction must be free from active political influence as much as possible.*

That personnel and policy should not change with every change in administration is an absolutely necessary qualification of any economic plan. Let us share with Professor Tawney the hope that ‘its secretariat (the National Economic Council’s), as it gets into its stride, will set new standards of administration, and serve as the nucleus round which a well-organized civil service can in time be built up’.³

¹ *General Report on Some Lines of Agricultural Policies*, by Professor T. C. Dragoni (in mimeographed sheets), p. 22, Mar. 1933.

² *Land and Labour in China*, Chap. VI, ‘Politics and Education’.

³ *Ibid.*, p. 180.

TECHNIQUE OF ECONOMIC PLANNING

9. *Technical skill required for economic construction, methodology in economic planning, administrative technique, can be borrowed temporarily from the West, in the hope that China will be able to learn and master them in due course.*

The recent collaboration between the Chinese Government and the technical organizations of the League of Nations is one of the most hopeful features, which, if it works out satisfactorily, will undoubtedly play an important part in the economic development in China, and at the same time free it from any foreign political and business interests, which have so often in the past operated under the guise of technical assistance. Another wise move on the part of the Government is the cry for 'productive education'. Such an education, when it is systematically and thoroughly carried out, will give Young China a scientific and technical background which will enable it to participate in taking the lead in economic construction in China.

10. *The tools of planning, such as statistical, accounting, and other factual information, must be systematically developed, so that an accurate basis for planning can be established.*

In view of the fact that these planning tools are in their infancy in China, it will be necessary for the Government to appoint a Commission of Inquiry to study the experiences and thinking of other countries on this matter.¹

FINANCE

11. *International capital, as proposed by Dr. Sun Yat-sen, can only be attracted when political stability and economic security are guaranteed.*

Sums received from Boxer Indemnities should be considered as exceptional income.

12. *Granted conditions of peace, order, and security are possible, Chinese capital, especially from overseas Chinese, should be encouraged.*

A fixed and reliable amount of capital is essential for the execution of any economic plan.

¹ The use of statistics and accounting in Russia is well illustrated by such a book as *Social Economic Planning in the U.S.S.R.*, by V. Obolensky-Ossinsky, August 1931. An outline of statistics pertinent in economic planning has been worked out by Dr. J. F. Dewhurst, chief of the Division of Economic Research of the U.S. Department of Commerce. This list of thirty items is reproduced in *Readings in Economic Planning*, by J. F. Frederick (1932), pp. 91-4. Another source of valuable information on the organization of statistics and research for economic planning is to be found in La Follette Committee Hearings on S. 6215 (71. Cong.) on Bill to Establish a National Economic Council (1932), especially statements of Miss Mary Van Kleeck, pp. 507-24, and Dr. Dewhurst, pp. 583-7.

PUBLICITY

13. *Wide discussion is the only way to achieve a unified idea, a unified national will, and a unified policy and programme, which are the foundation of national economic planning.*

In Russia every one carries out economic planning; in the U.S.A. every one talks about it; but in China the tendency is to draw up plans. We have as much to learn from the American talking as from the Russian doing. The principles, problems, possibilities, limitations, policies and programmes, ways and means, achievements and failures, of economic planning should be widely discussed before its inception, during the course of operation, and after the completion of any plan.

‘Economic planning is thus merely a phase of a new mode of feeling, life, and living. The *laissez-faire* of the nineteenth century was based upon a metaphysics of providential guidance. The planning of the twentieth century rests its case on a philosophical faith in the power of scientific research and constructive imagination.’¹ Modern China has certainly professed such a faith, but the question is how to realize it. Given conditions of political stability, administrative efficiency, with a national economic plan wisely drawn up and effectively carried out, the future economic development of China will be a blessing to its people and a happiness to the world.

¹ *The Problem of Economic Planning*, by Dr. L. L. Lorwin (1931), p. 31.

DOCUMENT V
POPULATION AND LAND UTILIZATION IN THE
PHILIPPINES¹

CORNELIO C. CRUZ, PH.D.

Professor of Economic Geography, University of the Philippines, Manila

THE FALLACY OF POPULATION DENSITY PER UNIT AREA AS
APPLIED TO THE PHILIPPINES

ONE of the most misleading items in the study of demography is that which the term density of population per unit area purports to convey. Properly this must be on the basis of a unit habitable area rather than simply the unit from the whole area of the country in question. This one has been the time-worn administrative practice of census enumeration and is much easier to work out; while the other is concerned with the geographic unit settlement and requires economic-geographic surveys for the proper delimitation of the area. The latter either exaggerates or hides the truth of the population conditions, while the former reveals the actual surface phenomena.

Let us take the Philippines, for example. It is the general consensus of opinion, particularly among the middle-latitude peoples, that the Philippines is very densely inhabited—partly because the Philippines is usually included within the Asiatic realm where more than one-half or 53.5 per cent. of the total population of the world is located on a land which is only 19.1 per cent. of the total land area of the globe.² With an overflowing mass of teeming humanity set as a backstage, the Philippines cannot but be likewise thought of as already surging to an overflow of inhabitants. There is, however, nothing farther from the truth, as the actual facts reveal. (See Table I.) By means of the estimate of density of population per unit area, the Philippines, which had 41.3 estimated inhabitants per square kilometre, or 106.9 inhabitants per square mile, in 1930, compares almost evenly with China's 43.2 inhabitants per square kilometre, or 112 inhabitants per square mile, of the same year—a real geographical paradox. On this basis, the real picture of the teeming millions of practically two-thirds of China's population, which is concentrated in one-third of its area,³ is not even vaguely suggested. The real situation is that along the deltaic and alluvial

¹ Major substance of a paper presented under the title, *Philippine Demography from the Geographic Point of View*.

² *International Yearbook of Agricultural Statistics*, Rome, ii, 1931, p. 17.

³ Julean, Arnold, *China, A Commercial and Industrial Handbook*: Trade Promotion Series No. 38, U.S. Dept. of Commerce, Washington, 1926.

plains of China the density of population is 2,000 per square mile.¹ The pressure of the packed humanity in the plains of eastern, south-eastern, and northern China has reached such an extent that there has arisen a floating population in those parts of China—an amphibian adjustment which is unique the world over and has therefore become a characteristic of Chinese settlements. Chinese sampans and junks, with the tall masts of the latter jostling in practically all the main streams, canals, and sea-coasts, reveal practically the same pressure.

TABLE I
DENSITY OF POPULATION PER SQUARE KILOMETRE OF
DIFFERENT COUNTRIES AS COMPARED WITH THAT
OF THE PHILIPPINE ISLANDS, 1913 AND 1930

	1913	1930
Kwantung (Japanese Leased Territory)	159.9	356.5
Java and Madura	228.0	317.0
Belgium	259.4	267.0
Netherlands	190.5	241.8
Great Britain	181.7	196.2
Japan	144.4	168.8
Germany	123.8	138.3
Italy	124.2	135.9
Taiwan (Formosa)	91.1	126.2
Chosen (Korea)	68.7	95.4
British India	85.5	94.9
China . . . . .	..	42.0
PHILIPPINE ISLANDS	31.7	41.3
Indo-China	22.3	28.0
Siam	16.1	23.0
Australia	0.6	0.8

The misconception in the case of the Philippines may perhaps be ascribed to the erroneous generalization of itinerant observers who have sojourned for a few days in our cities and have seen the neighbouring towns and villages. The natural impression that such visitors gather as they are whisked through the provincial highways is often misleading, unless they institute further investigations. The Philippines, taken as a whole, is less than moderately settled. Our density of population per unit of area is only one-fourth that of Japan, one-sixth that of Belgium, one-seventh that of Java, and one-eighth that of the most populous region of the world, Kwantung, the Japanese leased territory

¹ Julean, Arnold, *op. cit.*, p. 11.

² *International Yearbook of Agricultural Statistics, 1931*, pp. 2-17.

(see Table I). While it is true that there are densely clustered settlements in the Philippines, they have not been huddled together because of lack of habitable space. With the exception of Manila and Cebu, practically all the provinces have considerable habitable areas still open for settlement. As a matter of fact, there are recognized in the Philippines the following pioneer regions: Cagayan valley; the narrow coastal strips of Tayabas; the Bicol region, excepting Camarines Sur and Sorsogon; Mindoro and Palawan Islands; and, with the exception of Misamis, the great bulk of Mindanao. All these provinces are very sparsely settled, excepting the agglomerations at nodal points. There are causes other than geographic adaptations which underlie these groupings of Philippine settlements.

Types of Philippine Agglomerations. Our towns or *barrios*, or even the more remote *sitios*, present a very closely agglomerated settlement. Houses are built almost huddled together on both sides of a principal highway. It is not so much a question of economy of space or of high land rent (in the case of cities) as it is a custom which has been practised from long ago and which is traceable from the very first settlers of these islands. Our Malayan ancestors, when they settled and chose their sites of settlement, not only carried along with them to their new habitat their own gregarious mode of living but also were forced to build as closely as possible as a precaution against the piratical incursions of the Moros who came sweeping down in their *vintas* and carried away as many as they could lay their hands on. The unfortunate captives were later on disposed of as slaves or were assigned to man the *vintas*. Woe unto those who were so isolated along the coasts of these islands that they fell victims to those piratical raids!

Close agglomerations along coastal locations result, moreover, from the very nature of the activities of the people located thereon. As new settlers and sea-faring people, naturally they look first to the sea for their livelihood. Thalassic experiences dictate that if they join together in the enterprise of catching fish more food-supply is obtained than if they work independently of each other. How much easier, therefore, they work and go to sea if they are close to each other in their settlements. Was it not through their mutual help that they were able to reach the Philippines, in the preparations for their dug-outs, gathering of provisions, and their combined efforts to move their *vintas*? In like manner, co-operative undertakings for the acquisition of the means of subsistence by fishing, hunting, or tilling the soil have been practised in their new settlements. Further, a characteristic trait of the Filipino family, which necessarily results in a close agglomeration of houses in a given

locality, is the strong bond of kinship. As long as the wishes of the parents prevail in the marriage of a son or a daughter, the newly-weds must live in the parental home. If the new couple decide to establish a new home the house is generally built, if not practically as an extension of the old parental home, at least immediately nearby. The choice, of course, depends generally upon the mutual agreement of the contracting parties; but in either case, be it on the man's folks or the woman's, the practice amounts to the same—close to if not with the old folks' home.

That the close huddling together of the Filipino settlement is more of a precautionary measure for security than for any other purpose is well illustrated by the human agglomeration in the Mountain Province where intertribal vendettas have ceased to be resorted to only for the past few years. Of course, the island settlements in the Mountain Province, which arise from the very nature of its rugged and completely dissected topography, have their peculiar *raison d'être*; nevertheless, the precautionary measure of security gained from the closely built houses or huts of these mountain people is quite evident.

Another advantage of closely built settlements which has fostered rather than discouraged the practice of close building is the occurrence of destructive *baguios*, particularly during the rainy season. The average Filipino house is built of light material, of bamboo and nipa. These light structures, if not properly propped and tied during the typhoon season, are easily blown down by the winds. As a general rule, however, the occupants never think of propping or tying their houses as a precaution against the *baguios* ahead of time, only at the moment when the fury of the winds lashes the frail houses and these are in imminent danger of being blown away. Under the circumstances, the help of the neighbours close at hand would be imperative, and the advantages of their proximity to each other becomes more evident on such occasions.

Urban Agglomeration in the Philippines. Not unlike most of the leading countries of the world, the Philippines has also experienced a growing mobility of population from the rural sections to the cities. In his everlasting endeavour to improve his lot, man is urged to move where he believes there exist greater opportunities for employment or means of livelihood. This explains the continuous exodus of people from the provinces to the city, or from the more distant villages or *barrios* to the provincial capitals. This movement is sometimes the result of a desire on the part of the heads of families living in the towns or *barrios* to follow their children in their studies in the provincial high schools. For the more ambitious parents, the city becomes their goal—

in either case, the strong bond of kinship manifests itself even to the extent of migration.

POPULATION CAPACITY OF THE PHILIPPINES ON THE BASIS OF ITS
AGRICULTURAL POTENTIALITIES

Optimum Population of the Philippines. On the basis of the 1930 conditions of cultivation, standard of living, climate, soil, advance in technology, and others, the Philippines can comfortably support an optimum population of fifty millions. In estimating this figure, all the sources of income which are not derived from the agricultural production of 1930 have been ignored. The actual area under crop was divided by the estimated population for the archipelago to get the acreage necessary to support a unit of population. Then, with the figures for the total available agricultural area, the population capacity was calculated. On this basis, a unit of population of the Philippines is sufficiently maintained by the cultivation of a 0.82 acre of land. This is but one-third of the estimated 2.5 acres¹ of cultivated land which a unit of population of the middle latitude countries requires to live 'on the standard of white peoples'.

Maximum Population Capacity. Now, when the technology of production of the more up-to-date countries which produce the same crops that are raised in the islands shall have been generally adopted in the Philippines, an acre of our cultivated land will then be sufficient to feed two units of population.² On this basis, therefore, of a highly intensive method of production, the *maximum capacity* of the Philippines to support a population dependent upon agriculture alone will not be less than 90–100 millions of people. The last figure will in all probability be the saturation point of the population capacity of the Philippines. Any further attempt to increase the crop production to meet the demand for food of any additional increase of population would bring about the condition of diminishing returns, save for the invention of new labour-saving devices or the discovery of a more efficient method of production which will greatly increase the return per unit of land area.³ It should be understood, however, that when the 90–100 millions of population

¹ East, E. M., 'Future Food Prospects', *World Agriculture*, ii. 1931, p. 131; Hall, D., 'The Relation between Cultivated Area and Population', *Scientific Monthly*, xxiii, 1926, p. 359.

² One acre of cultivated land of Japan has to feed four persons. This, however, should not be the goal for the Philippines if she does not want to be confronted with the same serious Japanese population problems. It just shows the limit up to which a unit tilled area can be made to yield should it become absolutely imperative.

³ Van Hise, C. R., and Havemeyer, L., *The Conservation of Our Natural Resources*, New York, 1930, p. 347.

is reached the standard of living must necessarily go down, perhaps to the level of the very densely inhabited countries of Porto Rico, China, Java, and Japan. Moreover, practically all the available agricultural land of the Philippines must then be under intensive utilization.

Trend in the Agricultural Production and its Relation to Population. 'It is quite obvious that there cannot be more people in any given area than the agriculture of that area can support plus those who can be supported by agricultural imports, chiefly food and clothing, secured in the exchange of products with other areas'.¹ There has not been much change in the extent of the total cultivated area from the time of the last census to the present. As a matter of fact, 'in relation to population, the area under cultivation of the different crops has remained practically the same since 1910'.² The extent of the total area under crops in 1930 is just a little over 27 per cent. of that of 1918, while the estimated increase of population for the same period is approximately 18 per cent. (Table II). Of the six major crops listed in Table II, only rice has shown a relatively considerable extension in area, with coconut a very far second. Corn and sugar-cane acreages have slight increases, while abaca has suffered a decrease, and tobacco practically a reversion to its 1918 acreage.

The slow growth of the population of the Philippines follows roughly the gradual extension of the cultivated areas and reflects also the comparatively poor technology employed in the methods of production.

Relatively Low Efficiency in the Methods of Production. What really counts more in the demographic study of the Philippines is the average yield per hectare of its cultivated land. This data, to a certain extent, gives a better insight into the relative efficiency of man's utilization of his land. It reveals the paramount importance of a more appropriate adjustment of our system of agriculture to the natural environmental complexes. An examination of the various yields per hectare of the five major crops of the Philippines (Table III) shows that, with the exception of sugar-cane and rice, practically the same yield is being obtained now as in the year 1918. Obviously, there must be something wrong with the technology of production or perhaps with our system of land utilization if after a period of more than thirteen years the yield of the land remains the same. To all intents and purposes, the practice is highly uneconomical, not to say extravagant.

It is rarely realized that great economy of land may be accomplished through the increase of yield per acre. To obtain with profit larger

¹ Thompson, W. S., *Population Problems*, New York, 1930, p. 247.

² *Annual Report for 1930*, Department of Agriculture and Natural Resources, Manila, p. 121.

TABLE II
ANNUAL HECTARAGE OF THE SIX MAJOR CROPS, TOTAL CULTIVATED AREA, AND POPULATION
OF THE PHILIPPINES (1918-30)

	<i>Palay</i>	<i>Corn</i>	<i>Sugar-cane</i>	<i>Coconut</i>	<i>Abaca</i>	<i>Tobacco</i>	<i>Total cultivated area in million hectares</i>	<i>Total population in millions</i>
1903	592,766	107,980	71,885	148,245	217,810	31,417	129	7.635
1918	1,368,140	418,390	205,510	335,600	512,510	78,440	292	10.314
1919	1,381,340	430,710	200,200	373,250	515,560	73,860	297	10.398
1920	1,484,890	537,130	197,400	397,030	559,360	101,120	328	10.566
1921	1,673,380	543,830	241,340	417,960	548,090	90,980	352	10.734
1922	1,661,430	549,960	240,820	422,680	494,990	59,870	343	10.902
1923	1,675,870	557,690	227,290	456,440	513,420	64,730	350	11.070
1924	1,737,910	533,230	227,190	460,440	485,340	72,090	852	11.238
1925	1,725,500	522,380	239,470	472,050	477,110	71,630	351	11.406
1926	1,755,920	533,570	231,840	485,030	492,050	74,790	357	11.575
1927	1,807,060	561,430	237,350	500,010	480,150	83,970	367	11.744
1928	1,786,960	518,780	237,000	555,510	480,730	80,480	362	11.913
1929	1,775,460	515,040	257,710	532,660	484,850	82,620	369	12.082 ¹
1930	1,812,800	516,970	259,030	550,840	496,080	79,990	372	12.204 ¹

Data from *Annual Report, Bureau of Agriculture, 1928*, p. 14, and *Annual Report, Bureau of Plant Industry, 1930*, pp. 29-30.

¹ Population data for 1929-30 from *Statesman's Yearbook, 1932*, p. 625.

returns from the improved lands has always been the objective of the Philippines, although Table III apparently reveals the contrary.

TABLE III
AVERAGE YIELDS PER HECTARE OF FIVE MAJOR CROPS OF
THE PHILIPPINES (1918-30)¹

	<i>Cavans</i> <i>Ha.</i>	<i>Cavans</i> <i>Ha.</i>	<i>Piculs</i> <i>Ha.</i>	<i>Piculs</i> <i>Ha.</i>	<i>Quintals</i> <i>Ha.</i>
	Palay	Corn	Sugar-cane	Abaca	Tobacco
1918 . .	26.16	12.60	33.15	7.70	17.07
1919 . .	24.45	13.20	32.40	6.90	16.63
1920 . .	24.47	13.70	34.63	7.20	13.95
1921 . .	24.79	12.66	35.04	6.10	12.61
1922 . .	26.14	11.67	31.76	7.24	10.87
1923 . .	26.13	14.03	30.00	8.68	11.02
1924 . .	23.92	14.68	33.41	8.35	13.07
1925 . .	26.46	14.56	46.69	7.45	12.71
1926 . .	27.21	14.80	27.59	7.43	13.22
1927 . .	27.64	15.00	46.30	7.00	12.00
1928 . .	27.94	14.00	48.90	7.00	13.00
1929 . .	28.00	12.00	52.00	8.00	12.00
1930 . .	28.00	12.00	54.50	8.00	12.00

¹ These figures (except those for palay whose source is the same as in Table II) have been calculated from the corresponding *Statistical Bulletins of the P.I.*, using the following:

1 cav. of palay	= 44 kilos
1 picul	= 63.25 kilos
1 quintal	= 46 kilos
1 cav. shelled corn	= 58.5 kilos

The figures in the table of average yields of the different crops for the whole archipelago are somewhat misleading. They represent the sum total of production for a given crop, divided by the total area of the land devoted to that particular crop. Consequently, the figures tend to hide rather than reveal the actual facts. Actually there are certain provinces well suited climatically and edaphically to produce any of the major crops of the Philippines, which are applying scientific methods of cultivation and production; but their high yield is offset by the exceedingly low production of other areas which are tilled in the most primitive way. This is the main objection to average yields when applied to the country as a whole. It partly explains why the 1930 yields per hectare of abaca, tobacco, and corn have remained the same as those of 1918. Moreover, although corn is here considered a major crop, it is in reality only a secondary crop. It is grown generally along mountain and hilly slopes

or as a catch crop on sugar lands to be fallowed. Abaca and coconut are a lazy man's crop. After planting them, little or no attention is necessary for their growth. This time-worn practice of not cultivating these two crops has become so deeply entrenched in the regions producing them that only stiff competition from areas outside the Philippines will radically remove the old practice. There are already modern abaca and coconut plantations which have adopted more scientific methods.

RICE

This is the staple crop and the staff of life of the Filipinos. It is logical that it must lead in the production and acreage of all the crops of the archipelago. Thus the Director of the Bureau of Plant Industry, in his Annual Report for 1930, says:

‘ . . . palay in point of value as well as area is the biggest industry of the Philippines; while sugar-cane is next in gross value, even though it is but the fifth in area; then follow coconut, abaca, and corn.’

Any increase in population must necessarily have its corresponding demand on the food supply, and rice successfully meets that demand. Not infrequently our farming population, when forced by circumstances, particularly during the rainy season, subsists only on rice and salt or *bagoong*, or sometimes on rice and sugar. As a matter of fact, our non-Christian inhabitants of the Mountain Province live mainly on rice.¹

Rice Production in the Philippines compared with that of Other Rice-producing Countries. The Philippines has not reached half of its maximum capacity to produce rice. We had, however, more than trebled our production of rice in 1930 compared with twenty-five years ago (Table II). This was due to the more extensive application of irrigation. Nowadays, in the most important rice-producing provinces of the Philippines where there is an irrigation system, the land that originally could only be planted once to rice is producing two crops of rice. With the application of an adequate amount of water, the yield per hectare in the irrigated lands has become more than double the yield of those not irrigated (see Table IV).

It must be taken into consideration, moreover, that fertilization is not practised on the great bulk of the rice lands of the Philippines. Even without resorting to fertilization, our yield per acre of 1930 is not very far behind that of the most efficiently managed rice lands of the United States, and has even surpassed that of highly productive Java as well as Siam (Table V).

¹ Cruz, C. C., *The Mountain Province: A Geographic Study of its Assets, Possibilities, and Handicaps*, University of the Philippines Nat. & Appl. Sci. Bull. I, Nov. 1931, p. 326.

TABLE IV
THE AVERAGE YIELDS PER HECTARE OF IRRIGATED
AND NON-IRRIGATED LANDS¹

In Cavans per Hectare of Land

	<i>Without Irrigation</i>	<i>With Irrigation</i>
Nueva Ecija . . .	30.0	66.6
Bulacan and Pampanga .	27.7	60.0
Zamboanga . . .	14.3	60.0
La Union . . .	23.8	59.8
Ilocos Sur . . .	21.0	57.9
Iloilo . . .	17.6	47.6
Tarlac . . .	22.0	41.0
Bataan . . .	30.2	40.8
Antique . . .	18.9	40.8
Ilocos Norte . . .	20.0	40.0

¹ Data obtained from Table I, 'Irrigation System in Operation', *Bureau of Public Works Bulletin*, 19, Jan. 1, 1931, p. 54.

TABLE V
COMPARISON OF THE RICE YIELD PER ACRE OF SOME OF THE
DIFFERENT RICE-PRODUCING COUNTRIES OF THE WORLD¹

Yield per Acre (Pounds)

	<i>1909-13 Ave.</i>	<i>1921-5 Ave.</i>	<i>1929</i>	<i>1930</i>
United States . . .	922	1,075	1,295	1,197
India . . .	957	863	870	863
Japan . . .	2,163	2,350	2,378	2,644
Chosen . . .	1,134	1,191	1,076	1,523
Taiwan . . .	1,184	1,384	1,842	1,937
Indo-China . . .	858	645	591	10.1 (quintals) ²
Siam . . .	935	1,017	903	1,027
Brazil . . .	...	1,004	955	12 „
Madagascar . . .	888	1,018	773	605
Java and Madura . . .	932	880	880	815
Philippine Islands . . .	431	649	700	1,097 ³

¹ Data from *U.S. Commerce Yearbook*, ii., 673 (1931).

² *International Yearbook of Agricultural Statistics*, 1931, p. 179.

³ This figure was calculated from the data given in the 1930 Annual Report, Director, Bureau of Plant Industry.

Our maximum capacity to produce rice is reckoned from that of Japan. Our rice lands must be made to yield, if not the same amount as that for Japan, at least not below two thousand pounds per hectare. The need for such a high yield in the production of rice will be imperative when the maximum capacity for the population of the Philippines is reached.

SUGAR-CANE

As a cash crop, sugar is the most important crop of the Philippines. It is the leading export commodity of the islands and consequently the most effective wealth-giving crop of the people. While it stands second only to rice in the 1930 gross total value of production, in area it only ranks fifth for the whole Philippines—rice topping the list. Subject to the competition not only of other tropical sugar-producing countries but also of the middle-latitude sugar-beet producers, sugar-cane production in the Philippines must be carried on with the most up-to-date methods to overcome the strong competition abroad and the handicap of a long shipping haul to its most important market, the United States. Despite these strong stimuli for a more efficient system of cultivation and production, the Philippines is still far behind Java and Hawaii in the average yield of sugar per hectare. According to Geo. H. Fairchild, the Philippines is only yielding an average of 69.79 piculs of sugar per hectare as compared with 235 and 245 piculs for Java and Hawaii, respectively.¹ There is no doubt that, when the Philippines succeeds in obtaining the same sugar yield per hectare as either Hawaii or Java, this crop will help materially in the support of a greater number of people. Occasionally, with the more adequate application of fertilizer, selection of cane variety suited to the soil, the application of various ways of combating insect and other pests, as well as other scientific methods of increasing production, between 200 and 300 piculs of sugar per hectare have been reported. With proper enlightenment, the sugar-cane production in the Philippines augurs well for the future.

LAND UTILIZATION IN THE PHILIPPINES AND ITS RELATION TO POPULATION

Advantages derived from an Appropriate Land Classification. A survey of the lands of the country with a view to their proper classification is not only making necessary a general inventory of our land resources (including their assets and liabilities) but also assuring their most efficient utilization. Such a survey will reveal, among other facts, (1) lands now in crops that should have been left in grass or forest; (2) critically denuded areas greatly in need of rehabilitation; (3) lands

¹ Fairchild, Geo. H., 'Philippine Sugar Yield', *Sugar News*, Mar. 1932, p. 158.

which are less valuable for agriculture and associated home-making than for the preservation of natural scenic wonders, power sites, game preserves, grass or timber, &c. ; (4) lands with valuable mineral deposits. It will avoid the costly trial-and-error policy of settling on a piece of land for cultivation. By proper classification of the land, we shall avoid repeating past mistakes. 'Knowledge of land resources is indispensable to the wise direction of production.'¹ Advances in the technology of production must be studied, not only in countries raising crops similar to ours but also in other more advanced agricultural countries, with a view to their proper application in our country.

It has been the ultimate objective of all producers throughout the world to secure greater returns from their cultivated land. The direct and indirect means of accomplishing this objective have become so generalized that the ultimate effect is that 'production is outrunning consumption in most of the world'.² While we are avidly endeavouring to increase our production of crops in the Philippines, let us not overlook the present world depression which has been brought about partly by the producer's ultimate objective, cited above. From the standpoint of satisfying the demand for food of an increasing population, the problem is not as serious as it appears to be.

Land Utilization. If we follow the classification of L. C. Gray and others, that the three principal agricultural uses of the land are for crops, for pasture, and for forest, the Philippines cannot but be primarily agricultural. Its soil and its all-the-year-round growing season fits it. Even in regions with long protracted droughts, we find no serious handicap to their agricultural activities, particularly now with the extension of the irrigation systems.

A survey of the lands of the country with a view to their proper classification will not only ensure their most efficient utilization but also satisfy the demand for food of an increasing population. The ideal apportionment of the land of the Philippines with a view to its maximum population capacity is shown in the following table.

TABLE VI
IDEAL LAND UTILIZATION OF THE PHILIPPINES

	<i>Hectares</i>	<i>Per cent.</i>
Area reserved for forest purposes.	11,728,560	40.0
Area reserved for cities, towns, villages, roads, &c.	1,851,840	6.5
Area reserved for cultivation	16,049,200	53.5
Total	29,629,600	100.0

¹ *United States Department of Agriculture Yearbook, 1931, p. 38.*

² *Loc. cit.*

This estimate is reasonably in accord with that of Zon and Sparhawk, who claim ' . . . that in order to guard a country against unfavourable changes, 30 per cent. of its productive land area should be maintained under forest, leaving 60 per cent. for crops and 10 per cent. for cities and villages '.¹ Even if 10 per cent. of the total area of the Philippines were devoted exclusively to non-productive occupation of the land,² there would still be 90 per cent. of the total land area left available for agricultural purposes. By giving greater amplitude to the source of our food-supply we can aver with Inazo Nitobé: 'How to feed the growing population is the beginning and the end of the population problem.'³

A country's food-supply cannot be limited to agricultural industry alone, but there also exist many other sources, among which may be mentioned the sea, lakes, rivers, the mineral resources, services, and trade. As sources of income they naturally augment the capacity of the land to support an increasing population.

¹ Zon and Sparhawk, *Forest Resources of the World*, vol. i, p. 1.

² The land on which cities, villages, farmsteads, railroads, are located, is not in reality non-productive, for other industries may also be found, but it is here distinguished to mean not agricultural or forest products. Brunhes, J., *Human Geography*, New York, 1920, p. 74.

³ Nitobé, Inazo, *Japan*, New York, 1931, p. 275.

DOCUMENT VI

THE EFFECTS OF THE IMPERIAL ECONOMIC CONFERENCE
ON THE TRADE OF MEMBER COUNTRIES OF THE INSTI-
TUTE OF PACIFIC RELATIONS.¹

K. W. TAYLOR

Associate Professor of Political Economy, McMaster University

DECISIONS OF THE OTTAWA CONFERENCE

THE work of the Ottawa Conference, so far as it affects Pacific relations,² may be discussed conveniently under the heads of (1) definition of Empire goods, (2) export bounties, (3) customs administration, (3) monetary problems, and (5) economic co-operation.

Empire Content.

Any scheme of Imperial Preferences involves a definition of 'Empire Goods'. When are goods 'made in England', 'made in Canada', or 'made in the Empire'? No two of the nine governments represented at Ottawa have precisely the same definition. Most of the commonwealth countries require that a certain percentage of the material and labour embodied in a commodity shall be of Empire origin. But the percentages vary between 25, 33½, 50, 75, and 100; and most countries apply different percentages to different types of commodities. Moreover, some countries require that the whole of the required percentage come from the country of final shipment; some include material and labour of any country to which they grant imperial preferential treatment; still others allow material and labour of any Empire country to be included. India, in all preferences, and some other countries in a few commodities, require that all labour and material beyond a certain stage of production (e.g. in the case of cotton cloth, the manufacture of the yarn) must be of Empire origin. In addition there are a great many minor regulations. Moreover, some countries use the definition of content as an additional protective device. Australia, for example, requires 75 per cent. content in the case of goods of a kind made in Australia, but only 25 per cent. in the case of goods of a kind not made in Australia.

¹ The original paper, pp. 19-40 of *Canadian Papers* (Canadian Council, 1933), also contains tables of statistics concerning Canadian imports from, and exports to, British countries of the Pacific, and concerning the sources of Canadian imports affected by the Ottawa Agreements and related to Pacific trade.

² Throughout this memorandum 'Pacific relations' is held not to include Canadian-U.S.A. relations, except in so far as they relate to their respective interests in the Pacific area.

It would be of great advantage to Empire producers, especially those exporting to two or more Empire countries, if a greater degree of uniformity existed in this connexion. The conference was unsuccessful in making much progress. It was, however, unanimously resolved that a greater degree of uniformity was desirable, and that the 'content regulations' should not be such as to defeat the intention of any preferential arrangements.

Export Bounties.

Australia and certain other commonwealth countries grant substantial export bounties in a number of important commodities. In defence against such 'unfair competition', Canada and some other countries levy almost prohibitive anti-dumping duties. The range and amount of these bounties and the severity of the consequent dumping duties have greatly increased with the drastic fall in prices and the disorganization of exchange rates. The two practices together have played a not inconsiderable part in the strangulation of world trade.

The conference was unable to agree on any immediate elimination of these difficulties, and had to content itself with expressing the hope that with the rise in prices and the stabilization of exchange rates these bounties and duties would be withdrawn. However, in the Canada-South Africa Trade Agreement it is provided that Canada will not levy dumping duties on South African corn, and South Africa agreed to withdraw the export bounty not later than April 1934. It should further be noted that by the Canada-Australia Treaty of 1931 and the Canada-New Zealand Treaty of 1932 each country exempts the other's goods from the provisions of all anti-dumping regulations, except (in the case of Canada and New Zealand) after consultation and due notice.

Customs Administration.

This topic is one of the most vexing problems at the present time. Few people, other than those immediately concerned, realize the extent and the oppressive character of the vast network of embargoes, quotas, special duties, exchange duties, special and arbitrary valuations, deliberate delay and obstruction in the administration of health, quarantine, and pure food laws, which exist all over the world to-day. In many, if not most, individual instances quite a good case can be made out, at least in the short run, for each particular restrictive order. But all such restrictions beget retaliation, and before long a very large part of the trade affected simply ceases. If by international agreement all these abnormal restrictions could be swept away it would be of general advantage to all concerned. It has been well said that if the World

Economic Conference does not lower a single duty in any tariff schedule, but does succeed in securing the simultaneous withdrawal of all these special restrictions, it will go far in cleaning out the blocked channels of world trade.

The Ottawa Conference appointed a special committee to consider these topics ; but, unfortunately, little progress was made. No country actually agreed to withdraw any particular restriction, but unanimous agreement was reached on the following general principles: 'That the aims to be kept in view should be: (1) the avoidance of uncertainty as to the amount of duty which would be payable on the arrival of goods in the importing country ; (2) the reduction of friction and delay to a minimum ; (3) the provision of facilities for the expeditious and effective settlement of disputes relating to all matters affecting the application of the Customs Tariff.' These principles were inserted practically verbatim in Article 16 of the United Kingdom-Canada Trade Agreement ; and by Article 17 Canada has agreed to withdraw the exchange dumping duty on imports from the United Kingdom as soon as the financial situation will allow. As between Canada, Australia, and New Zealand no such concessions were required, since all special and anti-dumping duties are precluded under our 1931 and 1932 treaties with those countries.

Monetary Problems.

The monetary question loomed large at the conference. It dominated several of the opening speeches and attracted a great deal of attention throughout. Indeed, such was the fascination of the problem that when the Monetary Committee was sitting it was difficult to keep a quorum in the other committee rooms !

In this, as in many other cases, the exchange of views and the discussion of issues were very valuable, but no definite conclusions were reached. The conference was unanimous in desiring a general rise in prices and the stabilization of exchange rates. It noted with approval the cheap-money policy and the stabilization fund of the British Government, and urged all other countries, so far as in them lay, to follow similar lines. It also agreed on the importance of preventing future wide fluctuations in prices. But all these matters, it was agreed, lay in the larger sphere of international co-operation, and action based solely on intra-imperial co-operation could not hope to succeed.

Economic Co-operation.

The Committee on Methods of Economic Co-operation, under the able chairmanship of Sir Atul Chatterjee, did some most useful exploratory work.

Industrial Standardization. This sub-committee was able to report considerable progress since 1926 in the development and adoption of standard trade specifications within the Empire. It is obvious that the nearer standard specifications approach uniformity in several countries, the greater the facilities for mutual trade. The Ottawa Conference took definite steps to improve the methods of consultation between the standardizing authorities of the several countries, and recommended immediate action in securing a large measure of uniformity in steel, timber, industrial chemicals, and agricultural machinery parts.

Grading of Agricultural Produce. This sub-committee provided an opportunity for the direct exchange of views, and some rather general recommendations were made.

Industrial Co-operation. The work of this sub-committee attracted a great deal of attention and interest. Rationalization has been one of the most discussed topics in the past decade. The idea of Imperial rationalization is highly attractive. Rationalization on an imperial scale has a rare imaginative appeal. Skilfully stated, it can include almost all that is dear to the protectionist, the free trader, and the imperialist. Nearly a dozen private conferences were held between empire industrialists. Some merely explored the field. Others, e.g. the steel group, made some considerable progress and adopted some specific arrangements. So far as Canada's Pacific relations are concerned, the only important prospect is in the case of agricultural machinery. In 1930 certain Canadian and Australian manufacturing interests made arrangements looking towards mutual specialization and the interchange of parts and types of agricultural machinery. As a result, in 1930-1 Canada imported nearly \$400,000 worth of such machinery and parts from Australia. Then, owing to exchange difficulties, Australia had to prohibit the imports of agricultural machinery, and these mutual arrangements were necessarily suspended.

Films and Radio. This sub-committee made some further progress, but none of importance with respect to Pacific relations.

Existing Machinery for Economic Co-operation. This sub-committee prepared a factual survey of existing machinery, and the conference appointed a special committee to continue an examination of this problem and to report by June 1933, with a view to action not later than September 1933.¹ There has been much difference of opinion as to the value of these organizations (the Empire Marketing Board, the Imperial

¹ This committee's report has since been published (Cmd. 4335, June 1933). It is important for its negative rather than its positive recommendations. Certain proposals put forward to provide for the continuance of some sections of the work of the Empire Marketing Board after the latter's winding-up in September 1933 have been adopted. THE EDITORS.

Oriental Carpets and Hearth Rugs. The very slight reductions in duties on British rugs are unlikely to affect imports from Oriental countries.

PROBABLE EFFECTS ON CANADIAN IMPORTS

In summary, as a result of these tariff changes, the following Canadian imports from British Pacific countries are likely to be increased:

Pineapple from the Straits and Australia, quite substantially.

Sago and tapioca from the Straits, slightly.

Crude rubber directly or indirectly from the Straits may increase very substantially, provided the practices of the trade make it expedient to buy through the London instead of the New York market.

Butter from New Zealand and Australia, moderately.

Meats from New Zealand, slightly.

The following Canadian imports from non-British Pacific countries are likely to be diminished:

Pineapple from Hawaii and continental United States, moderately.

Sago and tapioca from the Dutch East Indies, slightly.

Peanut-oil from China, substantially.

Crude rubber from the Dutch East Indies, directly very slightly; indirectly perhaps quite substantially.

Beer, chinaware, cotton manufactures, and Oriental rugs from Japan and China, very slightly.

The total increases (excluding the non-calculable crude rubber) might reach \$1,000,000.¹ The total decreases (again excluding rubber) might reach \$1,500,000. Total Canadian imports from the tabulated Pacific countries were \$43,000,000 in 1929 and \$21,000,000 in 1932. The changes are thus of a very minor order.

PROBABLE EFFECTS ON CANADIAN EXPORTS

In the matter of Canadian exports to Pacific countries the situation as a result of the Ottawa Agreements remains unchanged so far as non-British countries are concerned.

Australia. Practically no changes affecting Canadian exports were made at Ottawa.

New Zealand. The new treaty, in effect May 24, 1932, restored to Canada the advantageous British Preferential rates on all items except tinned peas, silk stockings, plaster-board, agricultural implements, electrical cooking and heating appliances, and motor-cars of less than

¹ Throughout this memorandum the dollar referred to is the Canadian dollar.

75 per cent. Canadian content. In each of these items special Canadian rates were established slightly higher than the British Preferential rates but well below the General rates. As a result the volume of Canadian exports to New Zealand ought, with the return of better trade, to approximate that of a few years ago.

Straits Settlements. New preferences of from 10 per cent. to 20 per cent. accorded to Empire-made paper, automobiles, tyres, electrical appliances, and canned salmon ought to stimulate Canadian exports in this direction quite substantially.

Fiji. New or extended preferences were granted to all Empire countries in rubber goods, automobiles, and lumber. Practically 90 per cent. of Fiji's \$6,000,000 of imports already came from Empire countries, so that the new preferences cannot affect any large amount of trade. They will probably increase slightly Canada's share of the lumber and automobile imports.

OTHER PROBABLE EFFECTS

So much for the tariff changes. It remains to mention briefly the non-tariff aspects of the treaties.

A factor of great importance is the customs treatment of Empire and foreign currencies. Broadly speaking and excepting the British Isles, the Canadian Customs Administration computes the values of Empire currencies for duty purposes at the current rate of exchange. Imports from the British Isles are valued at the old par of exchange (\$4.87) for ordinary duty purposes and at \$4.25 to the £ (formerly \$4.40) for exchange dumping duty. Practically all foreign currencies, however, are valued both for ordinary duty and for exchange dumping duty at the nominal or 'mint-par' of exchange. This puts Japanese exports to Canada at a very severe disadvantage. China, being on silver, is not affected. Other non-British countries are adversely affected. The continuation of such discrimination must tend to diminish imports from foreign countries of the Pacific and encourage imports from British countries.

The establishment of quasi-judicial tariff boards in the various commonwealth countries, and the agreement to confine protective duties to such levels as will still permit competitive imports, may mean much or little. Theoretically, the principle on which duties are to be based (i.e. just sufficient to balance differences in costs under conditions of economical and efficient production) is quite unsound and is beset with both logical and practical difficulties. In practice, however, it may serve to moderate excessive tariffs in Canada and Australia.

The general spirit of the conference was undoubtedly cordial; and,

considering the intricacies of the problems under review and the diversity of interests represented, the conference concluded in an atmosphere of genuine goodwill and optimism. This pervading atmosphere and the favourable press which the conference received at the time have resulted in making people definitely more 'Empire-minded'. This has been, and will for a time at least continue to be, reflected in the mass of individual purchasing, but this is an aspect not capable of quantitative appraisal.

DOCUMENT VII
THE ECONOMIC CONSEQUENCES OF THE OTTAWA
AGREEMENTS IN THE PACIFIC DOMINIONS¹

O. L. LAWRENCE *and* G. H. PALMER

of the Royal Institute of International Affairs

IMPERIAL PREFERENCE AND BRITISH TARIFF POLICY

WITHOUT entering in detail into the past history of the Imperial Preference movement, it is important to gain a clear impression of the problems of Empire trade, and particularly of the difficulties which the United Kingdom has experienced in promoting it, as a background to the Ottawa Agreements of 1932.

Although, in the early history of the British Empire, Great Britain, along with the other European colonial powers, had endeavoured to retain a monopoly in trade with her colonies, the triumph of the Free Trade doctrines of the middle of the nineteenth century had caused her to take a thoroughly liberal view and to throw open colonial markets no less than her own. The demand for Imperial Preferences came from the other side; they were sought by the Dominions at the Colonial Conferences of 1887 and 1894, and in the following years were actually extended by the Dominions to Great Britain,² partly from sentiment, partly in anticipation of similar concessions in the home market, and partly in acknowledgement of the contributions that Great Britain made to the welfare of the Empire in other directions, particularly in the matter of defence. With the defeat of Joseph Chamberlain's movement in Great Britain, the prospect of obtaining similar treatment there became remote after 1907; in that year, to use Jebb's phrase, 'the door was banged'.

Owing to the nature of the basic economy of the country, it has always been difficult for Great Britain to accede to the demands of the Dominions for preference in the home market. The incapacity of the domestic food-supply to satisfy the needs of a large industrial population has long made the import of large quantities of foodstuffs a necessity. No government dared incur the responsibility of raising the cost of living of the working class by imposing duties on foreign foodstuffs in order to give preferences to the Dominions on the few important commodities in which they were vitally interested. It was, moreover, consistent with Great Britain's pre-war position as the greatest interna-

¹ Chapters I and IV-VII of a data paper presented under a similar title.

² i.e. Canada 1898, New Zealand and South Africa 1903, Australia 1908.

tional creditor to import freely as a means of facilitating the payment of international debts. By 1925, however, the position had changed materially: the British creditor position was not now so strong; of more importance was the failure of British exports to hold foreign markets. In the Dominions also, although preferences were still extended to British goods, doctrines of protection had gained ground as the result, and in aid, of the establishment and development of manufacturing industries. Although tariffs everywhere were on the upward trend, the Balfour Committee, in 1925, recorded that the main increases of tariff rates on British exports had been within the British Empire 'where the average *ad valorem* incidence has been increased by nearly two-thirds'; with regard to the competitive position *vis-à-vis* foreign goods, increases in the British rate had, however, 'in several cases, but not in all, been offset by a concurrent increase in the preference accorded to British goods'.¹ Nevertheless, economic rather than political considerations remained paramount in regulating trade policies. Canada continued to be bound by close economic ties to the United States, while Great Britain more than ever sought to obtain her food and raw materials in the cheapest market. Even so late as 1930, when the Dominions renewed their demands for the preferential treatment of Empire products at the Imperial Conference of that year, the Labour Government then in power made the pronouncement that:

'His Majesty's Government in the United Kingdom, believing that the development of inter-imperial markets is of the utmost importance to the Commonwealth, have declared that the interests of the United Kingdom preclude an economic policy which would injure its foreign trade or add to the burdens of the people; but that their fiscal policy does not preclude marketing propaganda and organization, which will secure valuable opportunities for the consumption of Dominion products in the United Kingdom.'

The 1930 Conference, however, kept the question open by the following resolutions:

'1. The Imperial Conference records its belief that the further development of inter-imperial markets is of the utmost importance to the various parts of the Commonwealth.

'2. Inasmuch as this Conference has not been able, within the limit of its deliberations, to examine fully the various means by which inter-imperial trade may best be maintained and extended, it is resolved that the Economic Section of the Conference be adjourned to meet at Ottawa on a date within the next twelve months.'

¹ Committee on Industry and Trade, *Survey of Overseas Markets*, London, H.M.S.O., 1925, p. 15.

The events of the autumn of 1931 substantially altered 'the interests of the United Kingdom' and roused a great measure of support for the project of Imperial Preferences. The reasons which animated this support were present in different proportions, but the strongest was undoubtedly the desire to consolidate the weak position of the export industries. Although trade with the Empire is of less importance as a whole than trade with foreign countries, it is of considerable importance to British export industries, as the following figures show. They are for 1929 which may be described as a year of fair prosperity:

	<i>Imports into Great Britain</i>	<i>Exports from Great Britain</i>
Total, in £ millions	1,221	729
Of which,	{ 862	{ 405
foreign countries	{ 70.6 per cent.	{ 55.5 per cent.
Of which,	{ 359	{ 324
Empire countries	{ 29.4 per cent.	{ 44.5 per cent.

The arrival of the depression had caused the Dominions, as well as European countries, to regard with concern their international balance of payments and the state of their domestic industries. Tariffs had been pushed considerably above the 1925 level and had been strengthened by other restrictive measures, such as primage duties and currency surtaxes, in an effort to curtail imports and to preserve shrinking markets for domestic industries. In many cases they were so high as to exclude not only foreign goods but also British goods which enjoyed the minimum preferential rate. It was therefore considered of vital importance, in order to preserve British export industries, to assist them to keep their Dominion markets. In addition, it was thought in some quarters that co-operation within the British Empire, which is a large and fairly self-contained unit, might assist in bringing about that rise in the level of prices and stabilization of exchanges, which all considered to be desirable and which were to be important items on the agenda of the World Economic Conference, due to meet at a later date. Extreme opinion even visualized the possibility of organizing the Empire as a closed economic system which would be immune from the disturbances of the outside world.

The Conference was actually made possible by the return, in October 1931, of a strong National Government, pledged to take whatever steps were found necessary to safeguard the trading position of Great Britain. One of the first actions of the Government was to pass an Abnormal Importations Act, authorizing the imposition of duties on manufactured

goods up to 100 per cent. *ad valorem*, to prevent dumping. This measure was followed, on March 1, 1932, by an Import Duties Act, imposing a 10 per cent. tariff on a number of products from which the Dominions were temporarily exempted. It could now no longer be objected that Great Britain had not the machinery for granting preferences. In previous years, in those isolated cases where protective duties had been established, such as the McKenna duties, she had shown herself willing to exempt Empire products. Now that she had equipped herself with a wide tariff—imposed, it is true, primarily with the object of cutting down her import bill—she could not refuse to admit Dominion goods on preferential terms.

THE TRADE AGREEMENTS

The rapid conclusion of new trade agreements had been made possible by the considerable amount of preparatory work that had taken place before the conference. On arriving at Ottawa the delegations were already aware of the chief proposals of most of their opposite numbers, and it only remained to work out the details.

In view of the fact that inter-Dominion trade relations had been well established in former years, and that the new British tariff was the most important fresh development, it was not unexpected that the Conference should centre around the negotiations between the United Kingdom and the various Dominions. We are concerned, therefore, with the three Agreements between the United Kingdom and Canada, Australia, and New Zealand respectively. In each case it has been convenient to subdivide the contents of each Agreement into 'United Kingdom' and 'Dominion' undertakings.

A. THE UNITED KINGDOM AGREEMENT WITH CANADA

United Kingdom Undertakings.

The United Kingdom agreed:

1. to prolong for at least five years the exemption of Canadian goods from the ten per cent. *ad valorem* duty imposed under the Import Duties Act 1932, with the exception of eggs, butter, poultry, cheese, and other milk products, where it is guaranteed for three years only, after which the British Government, in the interests of the home producer, may
 - a. charge a preferential rate on Dominion produce, provided that the margin of preference is maintained by raising the general rate,
 - b. include Dominion produce in any system of quantitative regulation of supplies that may have been devised;
2. to impose new or revised duties on certain foreign imports;

3. to maintain for at least five years the 10 per cent. *ad valorem* duty on foreign goods imposed under the Import Duties Act 1932, except by agreement with the Canadian Government;

(The maintenance of duties as provided under (2) and (3) imposed on foreign wheat, copper, lead, and zinc is, however, conditional upon Canadian exporters 'continuing to offer those commodities on first sale in the United Kingdom at prices not exceeding the world price'.)

4. to modify the present conditions governing the import of live cattle from Canada;

5. in any legislation following the report of the 'Pig Commission' to provide for the free entry of Canadian bacon and hams of good quality up to a maximum of $2\frac{1}{2}$ million cwt. per annum;

6. to pass legislation to secure for ten years the existing preference on tobacco grown or manufactured in Canada, so long as the duty on foreign unmanufactured tobacco does not fall below 2s. $9\frac{1}{4}$ d. per lb., in which event the margin of preference shall be equal to the full duty;

7. to invite the Crown Colonies and Protectorates to extend existing preferences, with certain exceptions, and to accord new or additional preferences to Canada.

Canadian Undertakings.

Canada agreed:

1. to substitute new duties for existing duties¹ on a number of articles provided that power is retained

a. to reduce these duties without altering the British margin of preference,

b. to increase duties under the intermediate or general tariff;

2. to undertake that 'protection by tariffs shall be afforded only to those industries which are reasonably assured of sound opportunities for success';

3. to ensure that the Canadian tariff 'shall be based on the principle that protective duties shall not exceed such a level as will give United Kingdom producers full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production, provided that in the application of such principle special consideration may be given to the case of industries not fully established';

4. to constitute a Tariff Board and to set on foot inquiries into existing duties in accordance with the new principles adopted;

¹ An interesting attempt to estimate the net effect of these duties will be found in the 'Ottawa Supplement' of *The Economist* for October 22, 1932.

5. to increase no duties except by approval of the Tariff Board before which United Kingdom producers shall have full rights of audience ;

6. to conduct the administration of Customs in such a manner as to

a. avoid uncertainty of the amount of duty payable,

b. reduce delay and friction to a minimum,

c. provide machinery for the prompt and impartial settlement of disputes ;

7. to remove, as soon as financial conditions allow, all surcharges on imports and if possible the exchange dumping duty, so far as it applies to United Kingdom goods ;

8. to modify the regulations governing the import of pedigree stock from the United Kingdom ;

9. to accord certain preferences to the Crown Colonies and Protectorates.

The agreement is to remain in force for five years from the date of signature (August 20, 1932), after which it is subject to denunciation at six months' notice.

It is stipulated that it shall have no effect upon the Canada-West Indies Trade Agreement of 1925.

It is made on condition that if any preferences granted therein on any particular commodity are frustrated in whole or part by creation or maintenance of prices for such commodities by State action of any foreign country, either Government will guarantee to exercise powers it already possesses, or will take, to prohibit the entry of these commodities from such a country for such time as may be necessary to make effective and to maintain the preference granted by it.

This provision was inserted at the request of Canada's representatives to combat the state-aided competition of certain Russian imports, particularly timber, into Great Britain.

B. THE UNITED KINGDOM AGREEMENT WITH AUSTRALIA

United Kingdom Undertakings.

The United Kingdom agreed :

1. to prolong for at least five years the exemption of Australian goods from the 10 per cent. *ad valorem* duty imposed by the Import Duties Act, except in the case of eggs, butter, poultry, cheese and other milk products, where it is guaranteed for three years only, after which the British Government, in the interests of the home producer, may

a. charge a preferential rate on Dominion produce, provided that the existing margin of preference is maintained by raising the general rate,

b. include Dominion produce in any system of quantitative regulation of supplies that may have been devised ;

2. to impose new or revised duties on foreign imports of certain produce ;

3. to maintain for at least five years the 10 per cent. *ad valorem* duty imposed by the Import Duties Act 1932 on articles except by agreement with the Australian Government.

(Duties, however, provided for under (2) and (3), imposed on foreign wheat, copper, lead, and zinc, are conditional on Australian exporters 'continuing to offer those commodities on first sale in the United Kingdom at prices not exceeding the world price'.)

4. with regard to imports of meat :

a. to limit imports of frozen mutton and beef from foreign sources during each quarter of the eighteen months from January 1, 1933, to June 30, 1934, to the following percentages of the imports from these sources in the corresponding quarters of the twelve months ended June 30, 1932 :

PERMITTED IMPORTS FROM FOREIGN SOURCES OF FROZEN BEEF AND MUTTON

	1933				1934	
	Jan./Mar.	Apr./June	July/Sept.	Oct./Dec.	Jan./Mar.	Apr./June
Percentages of quantities imported in similar quarter of twelve months ended June 30, 1932.	90	85	80	75	70	65

b. to limit imports of chilled beef from foreign sources to the same quantities as imported in the same twelve months' period,

c. to arrange for the quantitative regulation of supplies of bacon and hams in the United Kingdom market as soon as possible after receipt of the report of the 'Pig Commission',

d. to undertake that no restriction shall be placed upon the importation of Australian meats during the period ended June 30, 1934, in return for certain undertakings of the Australian Government,

e. to enter into consultation with the Australian Government during 1933 to consider the best means of ensuring an improved price situation and the more orderly marketing of supplies,

f. in the event of failure to formulate a permanent policy, to continue

to restrict foreign imports at the June 1934 level until the termination of the Ottawa Agreements,

- g.* in all matters referring to meat production, to consider first the development of home production, and second 'to give to the Dominions an expanding share of imports into the United Kingdom',

(In the event, at any time, of supplies of meat becoming inadequate, the United Kingdom Government reserved the right to remove restrictions on foreign imports until the deficiency shall have been made good.)

- h.* to invite the Governments of the Colonies and Protectorates to extend to Australia preferences accorded to any other part of the British Empire.

Australian Undertakings.

Australia agreed:

1. to guarantee certain minimum margins of preference to British goods in accordance with the duty paid as follows:

when the duty is 0-19 per cent. *ad val.*, the minimum margin of preference will be 15 per cent.,

when the duty is 19-29 per cent. *ad val.*, the minimum margin of preference will be 17½ per cent.,

when the duty is over 29 per cent. *ad val.*, the minimum margin of preference will be 20 per cent.—as long as the rate of duty on foreign imports does not exceed 75 per cent.;

(In the case of the certain exceptions the existing preference is to be maintained; in the case of another list of articles, a new minimum margin of preference will become operative; in the case of a further list, existing preferences may be reduced by the amount specified.)

2. in return for British concessions in the matter of meat imports, to limit Australian shipments to Great Britain of frozen mutton and lamb during the period January 1933-July 1934 to the amount of shipments in the twelve months ended June 30, 1932, and to ensure that shipments of frozen beef in the same period of 1933-4 do not increase by more than 10 per cent. over shipments in the year ended June 30, 1932;

3. to undertake that 'protection by tariffs shall be afforded only to those industries which are reasonably assured of sound opportunities for success';

4. to ensure that the Australian tariff 'shall be based on the principle that protective duties shall not exceed such a level as will give United Kingdom producers full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production, pro-

vided that in the application of such principle special consideration may be given to the case of industries not fully established';

5. to give effect to the principles laid down in (4) above on receipt of a report from the Australian Tariff Tribunal on the effect of existing protective duties;

6. to impose no new duty and to increase no existing duty in excess of the recommendation of the Tariff Tribunal;

7. to allow United Kingdom producers full rights of audience before the Tariff Tribunal over matters concerned with (3) and (4);

8. to remove from the import of United Kingdom goods prohibitions, surcharges, and primage duties, as soon as practicable or as soon as the finances of Australia allow;

9. to accord certain preferences to the Crown Colonies and Protectorates;—

the Agreement to come into effect from the date of signature (August 20, 1932), to remain in force for five years, and thereafter to be subject to six months' denunciation.

C. THE UNITED KINGDOM AGREEMENT WITH NEW ZEALAND

United Kingdom Undertakings.

The United Kingdom agreed:

1. to prolong for at least five years the exemption of New Zealand goods from the Import Duties Act 1932, with the same reservations with regard to eggs, poultry, butter, cheese, and other milk products as in the Australian Agreements;

2. to impose new or revised duties on specified foreign imports;

3. to maintain for at least five years the 10 per cent. *ad valorem* duty imposed by the Import Duties Act 1932, on a specified list of articles;

4. to restrict imports of foreign frozen mutton, lamb, or beef, and chilled beef as settled in the Australian Agreements, and to place no restrictions on the import of meat from New Zealand until June 30, 1934, in return for certain undertakings of the New Zealand Government;

5. to grant to New Zealand a reasonable share of an expanded market for pig and bacon products, following the report of the 'Pig Commission';

6. to invite the Crown Colonies and Protectorates to extend existing and new preferences to New Zealand goods.

New Zealand Undertakings.

New Zealand agreed:

1. to adopt the same principles of protection and tariff building as contained in the Australian and Canadian Agreements, to institute an

inquiry into existing duties, and to give United Kingdom producers full rights of audience ;

2. to impose new duties on certain British goods ;

3. to exempt United Kingdom goods from the application of the surtax ;

4. to make no reductions in existing preferences of 20 per cent. or less and, where the preference exceeds 20 per cent., not to reduce it below that figure except by agreement ;

5. not to increase the 3 per cent. primage duty on United Kingdom goods which are otherwise duty free, and to abolish it altogether as soon as financial considerations permit ;

6. to give as early as possible in each export season a reliable estimate of shipments of frozen mutton and lamb ;

(In the year 1933, they will not exceed the amounts shipped in the year ended June 30, 1932.)

7. to accord certain preferences to the Crown Colonies and Protectorates.

The Agreement remains in force for five years from the date of signature (August 20, 1932) after which it is subject to denunciation at six months' notice.

THE EFFECTS UPON INTER-IMPERIAL TRADE

The success or failure of the Ottawa Agreements in diverting trade to inter-imperial channels can be judged quantitatively only on the trade returns of the next few years. It is, however, possible to indicate to some extent the scope of the agreements by examination of the trade statistics of past years.

By applying the new rates of duty imposed by the United Kingdom on imports from foreign sources as a result of the Ottawa Agreements, *The Economist* has evolved the following results in terms of 1930 trade :

PERCENTAGE OF FOREIGN IMPORTS

	<i>Taxed under the old Revenue Duties</i>	<i>Taxed at</i>			<i>Free</i>
		<i>10 per cent.</i>	<i>11-20 per cent.</i>	<i>over 20 per cent.</i>	
Before Ottawa	17.0	32.9	15.3	4.6	30.2
After Ottawa	17.0	28.3	21.8	7.7	25.2

It will be noted that the tendency is towards taxation of foreign imports at levels above 10 per cent. and a curtailment of the free list, though even after Ottawa more than one-quarter of the foreign imports

still enter free, and less than three-tenths are subject to protective duties higher than 10 per cent.

As far as the entry of Dominion goods is concerned, the Agreements consolidated the preferential treatment extended under the Import Duties Act 1932, which may be summarized as follows in terms of 1930 trade:

<i>Imports from</i>	<i>Subject to Tax from all Sources</i>	<i>Free from Empire Sources, taxed from Foreign Sources</i>	<i>Free from all Sources</i>
	<i>Per Cent.</i>	<i>Per Cent.</i>	<i>Per Cent.</i>
Canada	1·8	54·3	43·9
Australia	12·0	34·6	53·4
New Zealand	0·2	50·3	49·5

This table gives the position before Ottawa when, under the new Import Duties Act, the Dominions were receiving preferences of 10-33 per cent. over a proportion of their trade which varied from 34·6 per cent. in the case of Australia to 54·3 per cent. in the case of Canada. As a result of the removal of many foreign imports from the free list, the proportion of Dominion trade enjoying a preference will have been raised still higher; and, incidentally, in many cases the margin of preferences will have been widened.

The guarantees of a certain share for Dominion producers in the British meat market speak for themselves. Until June 1934 Dominion producers have agreed to limit their exports to Great Britain of frozen mutton and lamb to the level of 1931-2 and not to increase similar exports of frozen beef by more than 10 per cent. At the same time, by resorting to the quota, Great Britain is to reduce progressively the amount of frozen mutton and beef imported from foreign sources and is to stabilize foreign shipments of chilled beef at the 1931-2 level. The Agreements, therefore, tend to stabilize all imports at the low levels of 1931-2 rather than to redistribute the trade extensively in favour of the Dominions: their effects are more likely to be seen in higher prices and, perhaps, better markets for the British live-stock farmer than in any wide changes in the sources of the British meat-supply. But it is important to realize that the present measure is temporary and experimental, and that it is hoped during 1933, in the light of the experience gained under the existing schemes, to make more permanent arrangements.

The effects of the Dominion concessions upon British trade are equally difficult to assess. It is estimated that the volume of trade, in terms of the returns for 1930-1, over which increased preferential margins were granted by Australia, amounted to about £15 millions, of which £8

millions were derived from Great Britain. This figure represents about one-quarter of Australia's total imports for that period, which amounted to £59.1 millions.

The Canadian revisions are estimated to affect an approximately similar proportion of Canadian trade in terms of the 1931-2 returns. Out of a total trade of 578.5 million dollars, of which the British share was 106.4 millions, it is estimated that the British tariff will be lowered to nothing in the case of 31.2 million dollars' worth of trade (of which the British share was 8.3 millions); that the British tariff will be reduced in the case of 58.9 million dollars' worth of trade (of which the British share was 37.4 millions); and that the foreign tariff will be raised in the case of 35.1 million dollars' worth of trade (of which the British share was 8.8 millions). In all, British producers will receive additional preferences over a range of imports valued at 125.2 million dollars in 1931-2, of which the British share was \$54.5 millions.

The New Zealand Agreement covers a smaller field. Out of a total import of £43 millions in 1930, the revised tariff affects a volume of trade from all sources estimated at only £2.4 millions. But one must add that the removal of the surtax covers British imports to the value of £10 millions. The removal of similar charges by the other Dominions must also be taken into account.

It is difficult to assess what will be the whole effect of the Ottawa Agreements on the British export trade. *The Economist* has estimated that they will provide for an expansion of British export trade not in excess of £25 millions. The alterations in the Canadian and Australian tariffs alone cover a total trade of about £40 millions in terms of trade in recent years, of which the British share was £19 millions. The Indian Agreement is expected to provide for a considerable expansion of British trade with India. It is, therefore, not improbable that the gain to the British export trade, which must include business won from Dominion manufacturers as well as that won from foreign competitors, will exceed the estimate of £25 millions made by *The Economist*. Against any such increase one must, however, set the potential loss of exports to foreign countries due to the reciprocal effects of higher duties on foreign imports.

GENERAL IMPLICATIONS OF THE AGREEMENTS

In addition to the negotiation of trade agreements the Conference concerned itself with questions of general policy. For this purpose it separated itself into five committees which were concerned with general problems under five headings:

1. Promotion of trade within the Commonwealth.
2. Customs administration.

3. Commercial relations with foreign countries.
4. Monetary and financial questions.
5. Methods of economic co-operation.

The first committee considered the three important problems of Empire Content, Export Bounties and Anti-Dumping Duties, and Trade Agreements. As a result of its deliberations a resolution was recorded recommending the investigation by separate Governments of the standard of Empire Content which should be required for importation on preferential terms, on the principles—

‘a, that though it must rest with each Government to decide what standard it will require, a greater degree of uniformity throughout the Commonwealth is desirable;

‘b, that the standard should not be such as to defeat or frustrate the intention of the preferential rate of duty conceded to any class of goods.’

The resolution is of particular interest to certain groups of British producers who are confident that past standards of Empire Content have certainly frustrated the intentions of the preferential duty in the case of American assembling plants located in Canada.

In a second resolution, the Conference—

‘recognizing that export bounties and exchange depreciation adversely affect the value of tariff preferences within the Commonwealth, expresses the hope that, with a rise in the level of commodity prices and with stabilized exchanges, such bounties and the special duties which have been adopted as a means of adjusting the situation so created may be withdrawn’.

In a third resolution the Governments recorded their conviction—

‘That by the lowering or removal of barriers among themselves provided for in these Agreements, the flow of trade between the various countries of the Empire will be facilitated, and that by the consequent increase of purchasing power of their peoples, the trade of the world will also be stimulated and increased;

‘Further, that this Conference regards the conclusion of these Agreements as a step forward, which should in the future lead to further progress in the same direction, and which will utilize protective duties to ensure that the resources and industries of the Empire are developed on sound economic lines.’

The Committee on Customs Administration recommended the administrative principles which are contained in the Canadian Agreement.

With regard to relations with foreign countries, the third committee framed a long and important resolution which was subsequently adopted. On the question of the relationship of inter-Commonwealth preferences and the most-favoured-nation clause in treaties with foreign Powers, Governments would determine their own policy; but each

Government, in a statement of policy, declared that no treaty, past or future, would be permitted to interfere with mutual preferences granted among members of the Commonwealth. Such a statement was, actually, unnecessary since the wording of the most-favoured-nation clauses in British practice is such that this is already ensured; but there was the special difficulty of the commercial treaty between South Africa and Germany, which would have prevented South Africa from giving further preference to Empire countries; and, in general, foreign nations have experienced difficulty in recognizing the peculiar structure of the British Commonwealth of Nations with regard to the operation of the most-favoured-nation clause.

Of more importance was the resolution with regard to the conclusion by foreign countries of areas of mutual preference known as 'regional agreements', on which point

'there was general agreement that foreign countries which had existing treaty obligations to grant most-favoured-nation treatment to the products of particular parts of the Commonwealth could not be allowed to override such obligations by regional agreements of the character in question',

though

'the Committee recognized that the fact that rights are accorded by most-favoured-nation treatment does not preclude a foreign country from seeking the consent of the various Governments of the British Commonwealth to the waiver of their rights in particular cases.'

On the question of monetary and financial policy the fourth Committee was non-committal and recognized the limitations to the powers of the British Empire to act with effect. Beyond recommending the general adoption of a cheap money policy it confined itself to a statement in support of a rise in the price level and of exchange stability, and expressed the eagerness of Empire countries to co-operate with other nations with these ends in view. Mr. Chamberlain's statement of British monetary policy was, however, of importance in reassuring the Dominions that a cheap money policy had been inaugurated not merely to facilitate Debt Conversion but as part of a wider plan.

The fifth and last committee recommended the appointment of a further committee to deliberate further on Methods of Economic Co-operation, and enunciated certain principles with regard to Industrial Standardization, Grading of Agricultural Products, Industrial Co-operation, and Films and Radio, which should be followed in any such deliberations. The committee has since then met in London, and its report has been circulated to the interested governments.¹

¹ It was published in June 1933 as Cmd. 4335.

CONCLUSION

The Ottawa Agreements as a whole were at once the subject of much criticism, especially in the United Kingdom, where they were made the reason for Cabinet resignations. Their true worth can only be appraised with the passing of years, but some of the accusations levelled at them are worthy of consideration.

Manufacturers, in particular, protested that Great Britain had granted much and received little. On mature consideration, this would appear to have been inevitable, since she had long received preferential treatment from the Dominions and owed a considerable accumulation of counter-concessions on past account, though these had been liquidated in some degree by other contributions to Imperial welfare, as was pointed out by the British delegation. It is, nevertheless, true that what passed on paper for new concessions by the Dominions may not have amounted to much. Many of them were on imports in which British producers are not greatly interested; in many more, the increase of preference meant nothing, since the minimum tariff remained so high that competition with Dominion producers is still impossible. In many cases where the British preferential tariff was lowered, British producers have complained that the duty remains at a prohibitive height. For instance, it was estimated in Huddersfield that the new cloth duties, which are partly specific and partly *ad valorem*, when calculated entirely on an *ad valorem* basis, have been reduced from levels between 75 and 90 per cent. to levels between 60 and 75 per cent., at which heights they still afford very adequate protection to Canadian manufacturers. In many industries, on the other hand, it is admitted that some expansion of business may be facilitated by the Agreements; in particular one may mention linen, anthracite coal, and certain iron and steel products entering Canada, and types of electrical machinery entering Australia.

It is, however, realized that potential benefits depend almost entirely on the attitude of Tariff Boards. The principle contained in all the Agreements of affording protection by tariffs against United Kingdom products only 'to those industries which are reasonably assured of sound opportunities for success' appears at first sight to be an overdue and welcome act of recognition that many Dominion industries are uneconomic and live only upon protection. Unfortunately, it has been qualified by a further statement of a principle that has long been proved pernicious and uneconomic—'that protective duties shall not exceed such a level as will give United Kingdom producers full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production'. The breakdown of international specialization has been responsible for many of our present ills; there was hope

in many quarters that the Ottawa Conference would further the cause of Imperial specialization, at least. The adoption of this principle of equalization of costs by means of tariffs, which makes no foreign trade worth while if it is pushed to its logical conclusion, may in fact defeat that object. Whether it can, or will, be pushed to its logical conclusion is another matter. Long ago it was found in the United States that the calculations necessary to administer this policy cannot be made with any accuracy. But, whether the principle is applied by the Tariff Boards or not, it is clearly these bodies that hold in their power the future prospects of British exporters; and it has already appeared, in Canada, that the rights of the British exporter of free access to the Tariff Board are not to be in accordance with what was expected in Great Britain.

Further criticisms have been levelled at the Agreements in general because many of the Dominion concessions depend upon promises rather than immediate accomplishments; in particular because the quota was brought into the foreground and because the United Kingdom bound herself definitely in her tariff policy for five years. The first criticism betrays a lack of confidence in the good faith of friendly Dominions; the promised concessions have in many cases since been made. The second ignores a general movement towards government regulation of economic enterprise which is alternately welcomed and condemned as a method of inducing economic revival. In binding herself for five years to extend certain preferences to the Dominions, the United Kingdom has certainly forfeited some of her power in bargaining with other nations. On the other hand, it was essential, as a matter of principle, that the Agreements should be given an adequate trial; their value would have been negligible had they been subject to unilateral denunciation at short notice. In fact, their permanence is sometimes over-estimated; an event of international importance such as the re-valuation of currencies on a new gold basis would almost certainly so alter the background that an entirely new agreement would have to be negotiated.

Lastly, it was the recorded opinion of the conference and the pious hope of the British delegation that Empire trade should be encouraged by the lowering of inter-imperial barriers rather than by raising of the tariff wall against foreign imports. How far this ideal was achieved, the reader may himself estimate.

Critics of the Agreements sometimes forget that the Conference met in extremely difficult circumstances, and that, as far as concerns the improvement of Imperial relations, its results must be entered on the credit side. Meeting at the low tide of the depression, and embarrassed in every country by stagnant pools of unemployment, it is not surprising

that representatives should have allowed local considerations to play a dominant part, and that statesmen should have been most concerned with keeping what they already had. In a time of comparative prosperity, one might venture to speculate, there would be a greater willingness to undergo a process of national reconstruction, and to sacrifice the more notoriously sheltered trades; in such conditions the shifting of enterprise and the reabsorption of labour involved by such readjustments would be less painful. Although, as was only natural, the tariff issues gained most of the publicity, it is possible that time may prove that the most valuable work of the Conference was done in the other sub-committees which were more concerned with the evolution of long-period principles and plans for the rationalization of Imperial production.

Therefore, the contribution of Ottawa to Imperial unity may lie more in the future than in the present: if within the five years of the life of the Agreements the world has surmounted its present accumulation of troubles, the principles of inter-imperial reciprocity which were evolved in 1932 may bear fruit, and the provisions which exist in each case for varying the terms of the Agreements may be used to the greater satisfaction not only of the theoretical economist but also of the British and Dominion producer.

DOCUMENT VIII

NOTES ON THE ECONOMIC CONSEQUENCES OF RECENT EVENTS IN MANCHURIA¹

*Compiled in the Study Groups Department of the Royal Institute
of International Affairs*

GENERAL INTRODUCTION

The Geographical Boundaries of Manchukuo

THE new State of Manchukuo, established in April 1932 in the three North-Eastern Provinces of China hitherto known as Manchuria, actually claims to hold jurisdiction over a very much larger area. Whereas the western boundary of Manchuria was separated from China Proper and the Great Wall by the Province of Jehol in Inner Mongolia, now, according to the Manchukuo authorities, 'The new state is bounded on the south by the Great Wall, and the Mongol Leagues and Banners in the same comprise Hulinbair and the Leagues of Cherim, Chaota, and Chosatu and their Banners'.² As thus constituted, Manchukuo consists of five provinces and two special districts: Fengtien, Kirin, Heilungkiang, Jehol, and Hsin-An or Hsingan. There is also the Kwantung Leased Territory at the southern end of the Liaoning peninsula, and the South Manchuria Railway Zone, consisting of the lands and town districts along 1,110 kilometres of the Dairen-Changechun main line of the S.M.R. lines. The special districts are the old Chinese Eastern Railway or Harbin district and the newly established Chientao or Korean district. By arranging a local government in these special districts it is hoped to organize a system of administration in conformity with the important minorities—Mongol, Korean, and Russian—living there. The total area embraced by this territory is 1,192 million square km., exclusive of the 3,740 square km. covered by the Kwantung Leased Territory and the S.M.R. Zone.³ The population was about 35·5 millions in 1930.⁴

¹ Abridged, chiefly by the omission of tables reproduced from available sources; and revised, in one instance, by the substitution of later figures.

² Cf. *Lytton Report*, p. 98. Quotation from letter received from Manchukuo Government giving boundaries of new State.

³

AREA OF MANCHURIA (sq. km.)

	<i>Figures given in S.M.R. reports</i>	<i>Figures given in North-Eastern Year Book</i>
Liaoning Province . . .	185,206	382,894
Kirin Province . . .	267,753	437,496
Heilungkiang Province . . .	582,609	760,475
Jehol Province . . .	156,826	195,748
Total . . .	1,192,394	1,776,613
Kwantung Leased Territory . . .	3,462	
South Manchuria Railway Zone . . .	278	
Total . . .	3,740	

(Source: Table I, p. 3, *Manchuria Year Book*, 1932-3.)

⁴ Cf. *Manchuria Year Book*, 1932.

Administration of the North-Eastern Provinces prior to Recent Changes.

Under the Manchu Government Manchuria was for many years ruled under an administrative system which differed from that applied to the provinces of China Proper. Not until 1876 was the administrative system of China Proper partially adopted in Manchuria. The first Viceroy of the Three Eastern Provinces was appointed by the Peking Government in 1907; and this was the supreme authority in the country until the changes introduced by the Revolution in 1912. In 1914 a new system of provincial administration was promulgated, and a Civil Governor was appointed, though actually the post of Shenchang or Premier was often held by the Tuchun or Military Governor. When Chang Tso-lin, Tuchun of Fengtien Province, was appointed Inspector-General of the Three Eastern Provinces as well, almost the whole of Manchuria came under his virtual control. From this point, the exact relationship of Manchuria to the Central Government becomes a subject of controversy, and it is extremely difficult to define the type of independence enjoyed by the Three Eastern Provinces under Chang Tso-lin's sway.

In 1922, after the first Mukden-Chili war, Chang Tso-lin proclaimed the autonomy of the Three Eastern Provinces. In 1927 he actually established himself in Peking as ruler of the territory north of the Yangtze river; but this episode was of short duration, and he soon retreated to his own country, north of the Wall. His son, Chang Hsueh-liang, by whom he was succeeded as Commander-in-Chief of the Three Eastern Provinces' Army, formally joined the Council of the National Government in 1928, and the national flag was hoisted in the Three Eastern Provinces at the end of the year. Certain administrative changes were introduced about this time in accordance with the demands of the National Government; Fengtien Province was newly named Liaoning Province in March 1929, and Jehol Special District was placed under the provincial administrative system and included in Manchuria.

Though Manchuria was thus formally united in the administrative system of China Proper, the peculiar conditions which had long prevailed there under the influence of Chang Tso-lin and his son Chang Hsueh-liang could not be easily changed in a short time. As a compromise, the North-Eastern Political Committee was established as an intermediate organ between the Central Government and the North-Eastern Provinces. This committee of twelve members under the presidency of Chang Hsueh-liang became the highest political organ in Manchuria.

*The Establishment of Manchukuo.*¹

The progressive military occupation of the Three Eastern Provinces by the Japanese, following the Mukden incident of September 18, 1931, gradually removed the Chinese authorities from all the important towns of Manchuria. After each occupation the civil administration was re-organized, and rumours of an independence movement began to be loudly echoed by the Japanese authorities. 'It is clear', says the Lytton Report, 'that the Japanese General Staff realized from the start . . . the use that could be made of an autonomy movement.' Thus, mainly through the instrumentality of the Japanese army and authorities, the new state of Manchukuo was proclaimed in February 1932.

Manchukuo is governed in accordance with an Organized Law and a Guarantee Law of Civil Rights, promulgated on March 9, 1932. The Regent is head of the state. All executive power is vested in him, and he also has the authority to overrule the Legislative Council.

The Government of Manchukuo regards the provinces as administrative areas and the municipalities as units of finance. All local revenues must be paid into the Central Treasury, which is alone authorized to supervise their disbursement. The revenues must not be retained, in whole or in part, by the local authorities, as was customary under the old régime.

The New Currency Regulations and the Establishment of the Manchukuo Central Bank.

The Manchukuo Government has planned a most ambitious programme, embracing a complete reform of Manchuria's public finance. Reform was certainly called for, as Manchuria, owing to the irregularities and lack of uniformity in taxation and currency in the different parts of the country, presented a bewildering tangle of fiscal problems. One of the main instruments for this purpose is the new Central Bank of Manchukuo, opened on July 1, 1932. The bank was organized as a joint-stock company empowered to 'regulate the circulation of the domestic currency, maintain its stability and control the financing service'. The capital of the bank was authorized at \$30,000,000 (silver), and permission was given it to issue notes against a specific reserve of at least 30 per cent.

If the Manchukuo Government can, even partially, regulate the currency problems of Manchuria, it will perform a great public service. In the words of the Lytton Report:

'There are few provinces in China in which the currency chaos matches that to be found in the North-Eastern Provinces. Not only does one find

¹ Cf. *Lytton Report*, p. 97, from which most of the following information is extracted.

here each of the three provinces has its own peculiar—but not always mutually exclusive—currencies, but also that various cities in even the same province have theirs, and that any one of the currencies may fluctuate violently and enormously with respect to almost any and all of the others. In addition to the officially authorized Chinese and foreign currencies, there are domestic and foreign *monies of account*, such as the several *taels* and Customs *gold unit*, and the Russian *roubles* and other foreign monies. Even the token monies and notes of local exchange shops and distilleries, particularly in the villages and district towns, help to add to the confusion.'

With a view to bringing order into this chaos, the Manchukuo Government ordered all the existing notes in circulation to be withdrawn within two years from July 1, 1932. The old currencies are to be exchangeable at fixed rates for the new ones at the Central Bank and its branches.

'It is not at all clear', adds the Lytton Report, 'how the new Manchukuo Bank can hope to accomplish its ambitious programme of unifying and stabilizing all the present Manchurian currencies with the very limited capital at its disposal. What it inherited from the old Provincial Bank, plus what the Japanese loaned and the Manchukuo Government subscribed to it, seem entirely inadequate for the purpose.'¹

Early Economic Activities of the Manchukuo Government.

During the months which have elapsed since the Manchukuo Foreign Minister invited the Powers to recognize the new state of Manchukuo, it has gradually been borne in on a more or less indifferent world that Manchukuo may have very awkward and serious consequences, not only for China, whose territory is thus dismembered, but also for the rest of the world. Meanwhile, the Japanese have lost no time in recognizing Manchukuo, thereby securing for themselves economic opportunities from which their competitors are debarred.

One paragraph of the Protocol of Recognition sweeps aside all the thorny problems raised by the Chinese contention of certain Japanese rights in Manchuria, in an unquestioning acceptance of the Japanese position:

'Manchukuo shall confirm and respect, in so far as no agreement to the contrary shall be made between Japan and Manchukuo in the future, all rights and interests possessed by Japan or her subjects within the territory of Manchukuo by virtue of the Sino-Japanese treaties, agreements, or other arrangements, or Sino-Japanese contracts, private as well as public.'

The first official economic intervention of this new Manchukuo Government was the seizure of the Chinese Maritime Customs revenue

¹ Cf. Supplementary Documents to the Report of the Commission of Inquiry, *The Currencies of the North-Eastern Provinces*, p. 174.

and the establishment of an independent customs' administration for Manchuria. This was, of course, a logical proceeding for an independent state. Unfortunately, this logical claim cannot be put into operation without further complications in the already very tangled skein of Far Eastern relations.

The revenue from the Manchurian customs houses collected by the Chinese Maritime Customs Service last year amounted to 26,000,000 tls., or over 10 per cent. of the total Chinese customs revenue. Owing to the important foreign and domestic loans secured on the customs revenue and the high international credit this expert service has always enjoyed, it is of fundamental interest to China to maintain its integrity. If this cannot be secured other funds must be found to fill the gap made by the revenue sequestrated in Manchuria.

According to a report issued by Sir Frederick Maze, Inspector-General of the Chinese Maritime Customs, on July 21, 1932, the dates of the last remittances of the customs revenue received from the Manchurian customs houses before being seized by Manchukuo authorities were as follows:

Harbin	.	.	.	March 28, 1932
Newchang	.	.	.	April 16, 1932
Lunchingstun	.	.	.	June 22, 1932
Antung	.	.	.	April 19, 1932
Dairen	.	.	.	June 6, 1932 ¹

In each of these cases, when armed raids were made on the customs, the Manchukuo police were accompanied either by Japanese advisers or military. Furthermore, when the expelled Chinese customs officials endeavoured to seek refuge in the South Manchurian Railway Zone, they were pursued by the Manchukuo police, who have no legal right to enter the zone. The Japanese, however, made no effort to prevent this violation of the zone, in spite of their alleged neutrality in this Chinese-Manchurian customs dispute.

Before adventuring too far in the confusing maze of conjecture and half-confirmed fact which represents our present state of knowledge regarding customs and tariffs in Manchukuo, it is important to define the *status quo ante* Manchukuo quite clearly.

CHINESE CUSTOMS AND TARIFFS IN MANCHURIA

The system of customs and tariffs established by the Central Government for China Proper also extended to Manchuria. Chinese Maritime Customs Offices, under foreign supervision, were established

¹ Cf. *The Seizure of the Chinese Maritime Customs Establishment in Manchuria*. Shanghai Office of the Inspectorate-General of Customs, July 21, 1932.

at eight treaty ports—Aigun, Sansing, Harbin, Hunchun, Lungchingtsun, Antung, Newchang, and Dairen—and the revenue collected at these places formed a substantial part of the Chinese national income. There were also native Chinese customs stations scattered throughout the interior of the country in towns and market-places under the jurisdiction of the Chinese.¹ Exports were subject to a 5 per cent. *ad valorem* duty; and imports, divided into twelve classes and 718 articles, paid taxes not exceeding 27·5 per cent. In Manchuria, as elsewhere in China, the import tax was paid on a gold basis since 1930.

The free-port system of the Kwantung Leased Territory was a special feature of the Chinese customs administration in Manchuria.² Dairen, the largest port in Manchuria, had originally been established as a free port by the Russians; and, since their time, ships have been permitted to enter free from customs duty on exports and imports, on the understanding, of course, that the goods in question originated, or were to be consumed, within the Leased Territory. This exemption also applied to goods passing overland into Kwantung from China and consumed in the Leased Territory.

The following system of taxation was in operation.³

1. 'Foreign goods imported at Dairen and passing the border of the Leased Territory by land into the interior of China are subject to import duty.'

2. 'When products of the Leased Territory or goods made thereof are sent by land into the interior of China, an import duty is levied.'

3. 'When goods brought into the Leased Territory by land from the interior of China are exported from Dairen, an export duty is levied.'

4. 'When goods made of materials brought by land from the interior of China are exported, an export duty is levied on materials or manufactured goods according to the option of the exporter.'

5. 'When Chinese goods brought to Dairen by sea from other trade ports of China are sent to the interior of China, duty will be levied according to the treaty in force.'

6. 'When Chinese goods brought to the Leased Territory by land are exported to other trade ports of China, an export duty is levied at Dairen and the coastwise trade tax at the destination.'

The Japanese used to complain that the Chinese authorities imposed considerable tariffs and taxes on Japanese interests. A provision of the Dairen Customs House Establishment Agreement, signed in 1907, guaranteed to avoid (by resort to drawbacks) the double imposition of Chinese customs duty on goods reshipped from other Chinese ports.⁴

¹ A circular officially abolishing the Native Customs in China was published in June 1931. It does not seem to have ever been strictly enforced.

² Cf. *Manchuria Year Book*, 1931, p. 64.

³ *Idem*, p. 67.

⁴ This information is taken from the *Third Report on Progress in Manchuria*, South Manchuria Railway, Dairen, p. 59.

In May 1931 the Chinese abolished this system and compelled shippers to pay double duties on goods reshipped to Dairen. The Detailed Protocol for Fushun and Yentai Collieries of 1911 provided that the S.M.R. pay one silver mace on each ton of coal exported. The Chinese authorities are stated to have attempted to levy three times this amount since June 1, 1931, and also to have tried to levy taxes on Chinese residents living within the zone.

Until the new Sino-Japanese Customs Tariff Treaty was signed in 1930, goods imported or exported over the Manchurian-Korean land frontier at Antung were subject to a reduction of one-third of the prevailing duties. This exception was abolished in 1930, when the Japanese also consented to the Chinese export surplus tax of 2.5 per cent.¹

Such was the situation as it existed in theory until March 1932, when Manchukuo declared her autonomy from the rest of China.

CUSTOMS AND TARIFFS IN MANCHUKUO

Now that Manchukuo has decided to treat China as a foreign country, the whole fabric of inter-connected fiscal arrangements, based on the sovereign unity of China and Manchuria, has broken down.

Manchukuo has not yet made any changes in the rates of former Chinese tariffs and customs duties, but tonnage dues are now collected through the Manchukuo customs, resulting in a heavy extra charge on shipping serving Manchukuo ports. The essential differences are that the customs system is now applied equally to China and other foreign Powers, and that customs revenue from Manchurian ports is retained in Manchukuo. On and after September 25, 1932, the following system was enforced:²

1. 'Any goods shipped from Manchukuo to China by water or land shall be subject to import duty on the basis of the existing tariff.'

2. 'Any goods imported from China to Manchuria by water or land shall be subject to import duty on the basis of the existing tariff.'

3. 'Receipts of tonnage dues issued by China shall have no validity in Manchuria.'

4. 'Inland navigation rights between Manchurian ports and Chinese ports shall not be recognized. Inland navigation permits issued by China shall have no validity in Manchukuo.'

5. 'For execution of the foregoing, Manchukuo will establish Customs Houses in Shanhaikwan and at other important points.'

According to these regulations, goods cleared at a Chinese port and reshipped to Manchuria will have to pay double dues. Though incidentally the total amount of this trade is not large, it is anticipated that

¹ *Manchuria Year Book, 1931*, pp. 68-9.

² Cf. *Manchurian Daily News*, Monthly Supplement, Oct. 1, 1932.

it may now be diverted from Shanghai, where transshipment formerly took place, to Hong Kong or a Japanese port. Should Japan conclude the preferential treaty with Manchukuo, which is being urged in many quarters, this trade might be transferred to a Japanese port, like Kobe or Yokohama, from which there are regular services with the Manchurian ports, so as to avoid dual taxation.¹ The extra ocean freight due to the extension to Japan might easily be more than compensated by the frequent services between Japan and Dairen at subsidized rates and with a fair chance of preferential customs or port treatment at the latter.

China cannot reply in kind to these discriminatory measures, as to do so would be tantamount to recognizing Manchukuo and, so to speak, cutting off her nose to spite her face. She has nevertheless reimposed the duty on Fushun coal. In order to supply the deficit caused by revenue now withheld in Manchuria, she increased the duties on wines, artificial silk, silk garments (75 per cent. *ad valorem*), toys (39 per cent.), whisky (88 per cent.), medicines (20 per cent.), and other articles classed as luxuries, as from July 1932.

It is true that the Manchukuo Government originally signified its willingness to contribute that part of the customs revenue formerly allotted to the service of the foreign loans by the Maritime Customs' Administration, if China would come to an agreement with her on the following basis: 'All additional revenue less running expenses to be handed over to Manchukuo; the movements of the principal officials to be subject to the approval of Manchukuo.'² This proposal makes no mention of domestic loans, which are also secured on the customs surplus revenue, and presupposes Chinese acquiescence in the establishment of Manchukuo. China naturally holds strong views on both these points, and agreement on such a basis is most unlikely. On September 29 the Chinese customs houses at Harbin, Antung, and Lungchingstun were closed by order of the Chinese Minister of Finance. The duties formerly collected at these places will now be levied at other stations on the Chinese side of the frontier. The revenue from the Salt Gabelle has also been retained by Manchukuo, with a similar assurance regarding the service of the foreign loans secured on it. The Manchukuo Government justified this action on the ground that the greater part of the revenue from the Salt Gabelle had in fact formerly been retained by Marshal Chang Hsueh-liang's Government. The first remittance of the new rate of \$217,800 was actually made on September 29, 1931, by consent of

¹ The Shanghai-Manchurian carrying trade was formerly in the hands of British and Chinese shipping companies, the Japanese only carrying coal between Manchuria and Chinese ports.

² Cf. *Manchurian Daily News*, *Monthly Supplement*, Oct. 1, 1932.

the Japanese army officers. Since then to March 1932, inclusive, the newly established authorities in Manchuria have remitted to the Central Government not only these monthly quotas but also the quota arrears left unpaid by Marshal Chang Hsueh-liang. Although ranking second to the customs as a source of income for the National Government, the Gabelle formed a very much smaller item in the Chinese budget.

Through the loss of the customs revenue collected at Manchurian ports the Chinese Government is faced with a considerably reduced income. Based on the amounts remitted from Manchuria from January to March 1932, this loss would come to \$2,529,491 silver a month; based on the monthly average for 1931, it amounts to \$3,260,348 silver a month. For a twelve months' period this reduction in income would fall between \$30,000,000 and \$40,000,000 silver.¹

In all these estimates of the losses sustained by China owing to the severance of the Manchurian customs one important factor is ignored in official statements which, nevertheless, has a real bearing on the situation. When Chang Hsueh-liang made his peace with Nanking, it is generally believed, he obtained substantial concessions regarding rebates of Manchurian customs which were to be made to him and his successors. No details of these agreements have ever been revealed, but there can be little doubt that they were made, in spite of the mystery still surrounding them.

Thus the Chinese loss of revenue at the present stage of development is probably not so dramatic or complete as statistics might otherwise suggest. Nevertheless, even granting these rebates to the Manchurian rulers, the relative economic importance of Manchuria in the Chinese Federation cannot be over-estimated. The various Chinese provinces differ greatly from the point of view of their contribution to Chinese foreign trade. In particular, the north-eastern provinces have been developing very fast with a considerable export surplus, owing largely to the growth of the bean industry² which in 1931 represented 23.5 per cent. of the total exports from China.³ On the other hand, the Lytton Report⁴ strongly deprecates this factor and attributes Manchuria's favourable balance rather to her unrecorded invisible imports, e.g. large remittances to China Proper and Korea, freight, interest, profit, and insurance payments to foreign countries, which have also been extensive. It is pointed out that it was not only in virtue of the fact that

¹ Cf. *Memorandum on Manchurian Revenues and the Chinese Government Budget*, American Council, Nov. 10, 1932.

² Cf. *China To-day—Economic*. J. B. Condliffe, World Peace Foundation, Boston, 1932, p. 177.

³ Cf. *Foreign Trade of China, 1931*, Chart 7.

⁴ Cf. *Supplementary Documents to the Report of the Commission of Enquiry*, Geneva, 1932, p. 194.

Manchuria was politically part of China that China Proper was able to use a portion of the region's favourable balance to help its own unfavourable balance, but rather because the Central Government expended less in Manchuria than it obtained from it. Both the Manchurian post offices and customs, for example, were highly profitable institutions and collected more than they expended in Manchuria. For these reasons, China Proper would lose heavily if she were forced to relinquish the Three Provinces permanently.

THE FOREIGN TRADE IN MANCHURIA

Japanese interests in Manchuria have been so emphatically recalled recently that there is a tendency to ignore the other Powers with actual or potential economic interests there. Owing to the rapid colonization of Manchuria, her foreign trade with many countries as well as Japan increased greatly in recent years. In 1900 Manchuria scarcely appeared in records of world trade. Her needs were few, her contributions less. In thirty years she has built up a large volume of international trade which was to a considerable extent promoted by the peace and order maintained by the Japanese in the neighbourhood of the S.M.R. Zone, and by their initiative in Manchuria. Her demands are constantly growing, and the range of products shipped abroad is also increasing, though to a less extent than the quantities of her original staple commodities, like beans, cereals, and silk.

In 1900, for example, the exports from Manchuria only formed 2·4 per cent. of China's total exports, and the imports 3·7 per cent. of the total imports to China.

TABLE I
MANCHURIAN FOREIGN TRADE AS A PERCENTAGE OF
FOREIGN TRADE OF WHOLE OF CHINA¹

	1900	1905	1910	1913	1915	1920	1921
Exports .	2·4	2·9	14·7	16·6	15·6	26·2	24·1
Imports .	3·7	6·7	12·3	12·8	13·6	15·6	14·7
	1922	1923	1924	1925	1926	1927	1928
Exports .	24·5	25·7	26·4	26·6	30·1	30·7	31·9
Imports .	14·7	13·2	13·0	16·6	16·7	18·4	18·5

¹ The statistics from which this table is drawn are (a) exports of local produce from Manchuria to foreign countries, (b) export of domestic goods (including re-exports) from each customs district in China totalled, (c) net imports of foreign goods into Manchuria, (d) net imports of foreign goods into each customs district in China totalled. The valuations are in all instances somewhat arbitrary and do not fully reflect price changes. The imports are, presumably, valued at a c.i.f. basis, and the exports on f.o.b. *Source*: Chinese Maritime Customs.

One of the chief characteristics of Manchuria's trade in recent years has been its expansion with China Proper. In both exports and imports, but particularly the latter, it has grown both absolutely and relatively to the total. During the period 1929-30 Manchuria received about 30 per cent. of its total imports from China Proper, exported to it over 24 per cent. of its total exports, and did almost 27 per cent. of its entire trade with it. The increase is to be attributed largely to the importation of cotton-piece goods and cotton yarn of domestic manufacture.

TABLE II
RELATION OF MANCHURIA'S TRADE WITH JAPAN,
CHINA PROPER, AND ALL FOREIGN COUNTRIES,
INCLUDING CHINA PROPER

(Values in millions of Hk. Taels.)

Year	Imports		Exports		Total	
	Value	Per cent.	Value	Per cent.	Value	Per cent.
1908* Japan and Korea .	14.7	28	17.2	36	31.9	32
China Proper .	21.1	40	18.7	39	39.8	40
Total trade .	55.1	100	47.6	100	100.7	100
1930† Japan and Korea .	120.4	40	159.3	40	279.8	40
China Proper .	99.6	33	102.3	26	201.8	29
Total trade .	306.4	100	396.7	100	703.1	100

* Compiled from *Report on Progress in Manchuria, to 1928*, p. 106.

† Compiled from *Third Report on Progress in Manchuria, to 1932*, p. 132.

Source: Table VI, p. 186, *Supplementary Documents to the Report of the Commission of Enquiry*.

The imports from Japan since 1913 have averaged about 70 per cent. of the total Manchurian imports from foreign countries, but her share in the exports from Manchuria has been even larger.¹ Frequently as much as three-fourths of these exports were destined for Japan, though the relative importance of the exports to Japan has certainly decreased since the War.

In connexion with Japanese trade with Manchuria, it should be added that 30 per cent. of the cotton goods imported into Manchuria from China came from Japanese factories in China. Since the products of these factories are now treated as foreign goods, the Japanese spinners in China have petitioned the Manchukuo authorities against the tax

¹ Cf. 'Studies in the World Economy', *The International Trade of Manchuria*, by Dr. Herbert Feis, Worcester, Mass., 1931. I am indebted to this work for most of the information reproduced here.

imposed on their goods.¹ On the other hand, the Manchurian spinners are inclined to expand their mills in order to profit by the new situation which has arisen. This has aroused a certain agitation in Japan where the home manufacturers contend that Manchurian mills should concentrate on coarse counts so that the Japanese spinners' market should not be disturbed. It has even been suggested that some of the Japanese mills in Shanghai should be removed to Manchukuo so as not to lose trade.

The imports from Europe have increased from about one-tenth of the total foreign imports in 1913 to one-sixth, or a value of 26.9 million taels, in 1928. The imports from China have increased as rapidly as from the rest of the world and are not fully represented by the above tables which only show the goods passing through the Maritime Customs. During 1930 Manchuria imported only about one-sixth less goods from China Proper than from Japan and Korea, though she sold much more to Japan than to China. During the decade prior to 1931 Manchuria's total recorded trade with Japan increased by somewhat over one-half, whereas that with China Proper almost doubled.²

The chief imports are cotton goods of all kinds which always head the list, gunny bags for the bean exports (the largest item on the list of exports), machinery, electrical materials, iron and steel, tobacco, and petroleum.

A careful examination of the Chinese Maritime Customs returns before recent political changes in Manchuria shows that there were a considerable number of commodities in the case of which Dairen's imports from all sources exceed—in most cases greatly—China's total imports from Japan. What proportion of the excess of Dairen's imports over the total value of goods imported from Japan was British and what proportion should be credited to other European countries it is impossible to say with any degree of accuracy. The important point is that, as long as the 'Open-Door' policy prevailed, there was a definite market for these non-Japanese goods in Manchuria.³ Any closing of the door at this stage of development must affect the business interests of many European and American countries.

Railway materials for the lines built by the Chinese in opposition to the S.M.R. have hitherto been supplied by American, German, British, and Belgian firms, whichever was lowest in tendering. Under Chinese auspices this competitive market might have continued for years. The country is rapidly being opened up, and the Chinese have shown a more practical determination to develop communications in Manchuria than elsewhere in China. Now these Chinese railways have been taken over

¹ Cf. *Japan Weekly Chronicle, Commercial Supplement*, Oct. 6, 1932.

² Cf. *Supplementary Documents to the Report of the Commission of Enquiry*, p. 190.

³ Based on information supplied by the China Association.

by Manchukuo, and it is extremely unlikely that contracts will be placed in Europe or America as formerly. It is far more probable that the course taken by the S.M.R. in its purchase of rolling stock and materials will be followed.

During the first twenty years of its existence, the S.M.R. purchased a very large amount of its railway equipment, and that of the railways it has financed for the Chinese, in America.¹ The mining machinery for its collieries at Fushun and for the Anshan Iron and Steel Works was also purchased there. In recent years, however, the Japanese have been able to supply their own equipment, and even steel rails are now exported from Japan to Manchuria.

TABLE III
MATERIALS PURCHASED BY THE S.M.R. IN THE UNITED STATES
AND GREAT BRITAIN, 1922-6

	<i>United States</i>		<i>Great Britain</i>	
1922 .	G.Yen	3,389,842	G.Yen	729,576
1923 .	„	4,882,611	„	753,643
1924 .	„	2,645,995	„	1,258,783
1925 .	„	2,761,606	„	1,126,810
1926 .	„	3,974,170	„	1,071,305

As a single customer the S.M.R. is the best for American firms in Manchuria ; but if compared with the total purchases of the independent Chinese railways, its purchases are much smaller.² Moreover, the S.M.R. is now limiting its purchases of railway materials to such specialities as cannot be supplied from home.

American, British, and Soviet oil-products are in active competition in Manchuria, though up to the present four-fifths or more of the supply came from America.³

British and American capital is engaged in the tobacco business in Northern Manchuria and in the imports of tobacco which must be blended with the native product to make it palatable.

In an outline of the international interests likely to be affected by the present political changes in Manchuria, the export trade of the Three Provinces has obviously not the same direct importance as the import trade and therefore need not be discussed here. The advent of Manchukuo should not change the orientation of the export trade, except in so far as this will probably increasingly tend to go in Japanese

¹ Cf. *A Note on Manchurian Railways and the Trade in Railway Materials* by C. Walter Young, Worcester, Mass., 1931.

² *Idem*, p. 267.

³ Cf. Feis, *op. cit.*, p. 255.

bottoms, provided the commodities come on the market in the usual quantities. On the other hand, the apportionment of the import trade may be seriously affected by tendentious action of any kind on the part of the controlling forces in the Government.

FOREIGN INVESTMENTS IN MANCHURIA¹

Foreigners other than Japanese invest chiefly in North Manchuria. The amount of their investments in 1928 was about Y550,000,000, or some 40 per cent. of the Japanese total. Of this sum, Y465,000,000, or 84 per cent., represents investments by the Soviet Union; next come British investments with Y39,000,000, or less than 10 per cent. of the total amount invested by foreigners other than Japanese. The following tables show these investments classified according to enterprises and to the percentage shares of the individual countries concerned.²

TABLE IV
INVESTMENTS OF VARIOUS COUNTRIES IN MANCHURIA (1928)
(In thousands of Yen)

	<i>U.S.S.R.</i>	<i>G. Britain</i>	<i>U.S.A.</i>	<i>France</i>	<i>Sweden and Denmark</i>	<i>Total</i>
Railway . . .	397,663	16,500	..	14,276	..	428,439
Forestry . . .	4,500	..	..	..	..	4,500
Mining . . .	15,000	..	..	250	..	15,250
Fishery . . .	200	..	..	..	..	200
Manufacture . . .	5,250	2,500	2,500	5,000	250	15,500
Commerce . . .	19,500	10,870	10,700	60	607	41,737
Banking . . .	7,902	7,000	8,500	..	..	23,402
Miscellaneous . . .	15,000	2,720	4,700	1,500	150	24,070
Total . . .	465,015	39,590	26,400	21,086	1,007	553,098

TABLE V
FOREIGN INVESTMENTS IN MANCHURIA
(In thousands of Yen)

		<i>Per cent.</i>
Japan . . .	1,616,966	70.45
Soviet Union . . .	590,000	25.71
Great Britain . . .	39,590	1.73
U.S.A. . . .	26,400	1.15
France . . .	21,086	0.92
Sweden and Denmark . . .	1,007	0.04
Total . . .	2,295,049	100.00

(Source: Table I, p. 425, *Manchuria Year Book*, 1932 3.)

¹ *Third Report on Progress in Manchuria, to 1932.* S.M.R., Dairen, June 1932.

² Statistical details of the foreign investments in Manchuria are only available up to 1928, though revised general statistics of these investments (showing new Japanese and

These figures can be accepted only with the greatest reserve, as the statistical data concerning foreign investments (other than Japanese) are unreliable and inadequate.

The Chinese holdings in Manchuria 'unquestionably exceed all the foreign investments combined and many times over'.¹ An interesting characteristic of these investments, in so far as they are in agriculture, is that the larger ones are either 'officially or privately owned by officials wholly or in part'. A number of big business concerns under Chang Hsueh-liang were government or semi-government concerns, and all of these as well as the native banks are reported to have passed under complete Japanese control since the establishment of Manchukuo. The Chinese are also interested in many joint enterprises with foreigners: Russians; as in the Chinese Eastern Railway; Japanese: railways, mines, timber companies, banks, bean-oil plants, flour mills, &c.; British and American in the tobacco business.

Apart from the business interests, the foreign investments in Manchuria other than the Russian and Japanese are exceedingly small and probably (according to the Lytton Commission Report) do not amount to as much as 5 per cent. of the total foreign investments. Nevertheless, it is important to note the result of the Lytton Commissioners' investigation on this subject.

'The general feeling among those interviewed was that, if Japanese trade and investments increase, the *direct* trade and investments of other foreigners will decrease until Manchuria will become somewhat similar to Korea, where there is not even a single foreign bank to be found, and where there are only a few foreigners left in business. Certain of the European and American business men interviewed, however, felt that, even though the Japanese capture most of the business, there will be growing absolute shares left for the others.'²

Another, more optimistic attitude to this 'Open Door' question in Manchuria is that the share of business left for Europe or America by the Japanese will depend on the rate of the country's progress, and that a period of prosperity and order may come when the Japanese simply will not be able to cope with the increase in business.

THE JAPANESE-MANCHURIAN ECONOMIC BLOC

The Lytton Report mentions that the idea of a 'Japanese-Manchurian Bloc is in the air'. It adds that it is dangerous not to discern the limitations of Manchuria's possibilities, and that the economic (Soviet investments) were published in 1930. For this reason the tables refer to 1928 and 1930. See also C. F. Remer, *Foreign Investments in China*, pp. 71-3.

¹ Cf. *Supplementary Documents to the Report of the Commission of Enquiry*, Geneva, 1932, p. 206.

² *Ibid.*, p. 207.

advantages of the coal, iron, and oil which Japan obtains from Manchuria are dubious.¹ There is one aspect of this 'Japanese-Manchurian' economic union which has recently come much to the fore in Japan during the discussions on the proposed mergers in the coal, iron, steel, cement, and sulphate of ammonia trades.² Manchuria also produces all these commodities, and it was insisted that no restriction of production could be effective (so far as Japan was concerned) if it did not include Manchuria. It soon became clear, however, that Japanese producers at home and in Manchuria might differ widely on this point. For example, the S.M.R. directors of the Fushun coal-mines and the Onoda Cement Co. have already protested against the marketing quotas of their respective commodities proposed by the Sales' Guilds at home.

An important question of principle is now at stake. Is Manchuria to be developed in accordance with its resources and in the best interests of its people, or is it only to be developed in so far as this development does not run counter to Japanese economic interests?

At the present time the best coal-fields, the largest ironworks, the most important railway system, the most up-to-date towns and public utilities are in the hands of the Japanese; and Japan is incidentally the largest employer in the country. There is every reason to suppose that Japan will obtain further concessions and increase her hold on the economic life of Manchuria under the new régime. She may not always be able to control this outpost of her economic system in the interests of the 'controlled economies of Japan', but the tendency of her policy, if she has a free hand, should not be overlooked.

THE RESULTS OF MANCHUKUO'S POLICIES

Manchukuo has announced that she will grant facilities for industry and commerce only to nationals of those states which recognize her. This will create a serious problem for the million or so Chinese who have annually been streaming over the Manchurian frontier for the last twenty years from the congested, famine-stricken, or flooded areas of Shantung and Hopei, and who are now in danger of being excluded as aliens.³ Another aspect of the same question is the probable effect of the

¹ Judged as a business proposition, from the point of view of the enormous capital invested and the high cost of production.

² Cf. Files of *Japan Weekly Chronicle, Commercial Supplement*, June, July, August 1932.

³ Cf. *The Manchuria Year Book, 1933* (published by the East Asiatic Economic Investigation Bureau, Tokyo): It is reported that the new Government of Manchukuo will prohibit immigration of the Chinese which was formerly not only unconditionally permitted but also welcomed and encouraged. Already the Fengtien Provincial Government has announced, by an order dated April 1, 1932, the policy of restricting the entrance of foreigners and of prohibiting the entrance of foreigners who do not possess proper passports or certificates, or who come without proper funds in their possession.

new regulations on Manchurian labour, which is almost entirely Chinese. Meanwhile, there is the imminent prospect of all trade, industrial, and mining concessions and transport facilities falling into Japanese hands—at all events on paper—as a result of Japan's recognition of the new state.

The last Progress Report issued by the South Manchurian Railway bluntly avows that 'business necessity must often modify political sentiment'.¹ It further adds, 'should nationals of other states desire commerce, or continue to trade with Manchuria, they had better recognize the new state'. There is no mistaking this warning, nor its implications.

An extreme application of the Manchukuo independence arguments was first publicly mentioned by Mr. Ohashi, the Japanese Vice-Minister of Foreign Affairs in Manchuria. Discussing the Manchukuo Protocol of Recognition in an interview reported in the *New York Times* on September 17, 1932, he said: 'This Protocol also recognizes the suzerainty of Manchukuo over the leased territory of Kwantung.' So, for the future any questions concerning the renewal of the lease, or its terms, that may arise will be arranged between Japan and Manchukuo, though the original treaty leasing the territory to Japan in 1907 was signed in China. This is a convenient arrangement for Japan in view of the feeling about foreign concessions (and leased territories in particular) prevailing in China.

The port of Dairen, a most important customs station, yielding 15 per cent. of the total Chinese Maritime Customs revenue from Manchuria, is also in this leased territory. By transferring Chinese rights over Kwantung to Manchukuo, it is hoped to short-circuit the awkward international issues arising out of the recent arbitrary appropriation of the Dairen customs in territory leased by Japan from China. The transfer of suzerainty is obviously under present circumstances imperative for Japanese economic interests; but the sophistry on which it is based is not less obvious.

Another domain in which the newly erected Chinese-Manchurian frontier may have international economic consequences is that of the railways, as the separatist Government has taken over those sections of the railways outside the Great Wall of China. The severance, for example, of the Peking-Mukden line (operated by the British-Chinese Corporation) at the Manchurian frontier, with two separate administrations and no working agreement for through traffic (and little possibility of obtaining one in view of China's firm determination not to recognize Manchukuo) has already played havoc with through traffic from China and jeopardized a considerable part of the Company's income.² On the

¹ *Third Report on Progress in Manchuria, to 1932.* S.M.R., Dairen, June 1932.

² See Annual Report of the British-Chinese Corporation, *The Times*, April 27, 1932. 388 miles of this line are in the Manchurian section.

other hand, it has been able to retain most of the rolling stock south of the Wall.¹ British capital is incidentally involved in this railway. As the earnings of the whole railway are hypothecated as security for British loans, the question arose as to what contribution towards the monthly requirements was to be made from the earnings of the Outside Wall section. When the Manchukuo authorities were approached on this point, they stated that obligations would be respected. This engagement has been regularly fulfilled up to date.

In one way or another, it is China who stands to suffer most under the new régime, economically as well as territorially. In 1930 her trade with Manchuria was estimated at 201,831,636 tls., showing a fivefold increase in twenty years and ranking next in importance to that of Japan. Now the Chinese are to be treated as aliens in Manchuria, and their trade will probably be subject to the same kind of discrimination as has practically killed it under Soviet auspices in Outer Mongolia.

In the case of Outer Mongolia, the Soviets have preserved the illusion of Chinese sovereignty in accordance with the 1924 Sino-Soviet Agreement. At the same time, in virtue of the Constitution of the Mongolian Peoples' Republic forbidding private trade, the Chinese are actually banned from this territory, and their trade is ruined by taxation and discriminatory measures of various kinds. In Manchukuo, the Japanese dictatorship is thinly veiled by the saving judicial fiction of Manchurian self-determination, as expressed in the state of Manchukuo. The genesis of both states from armed intervention and the organization of independence under the virtual dictatorship of a foreign power is very similar. In spite of the disturbed conditions, the uncertainty with regard to the future, and the international limelight on the scene, discriminatory tactics are reported against foreign firms which awaken considerable doubt as to the genuineness of the 'Open Door' policy in Manchuria. Charges of communist propaganda, seditious activities, &c., have been made against reputable firms in Manchuria with a view to crippling their work and removing competition with Japanese firms. Extensive smuggling of Japanese goods through the port of Dairen, where the former Maritime Customs Service is now under Japanese control, is reported on good authority in the British and French press,² while customs duties are rigorously exacted on goods of non-Japanese origin. An example of the reaction of such smuggling on the trade of China Proper is provided by the fact that, whereas hitherto the Shanghai sugar

¹ There is some reason to suppose that the Manchurian end of the line, on which there was little local traffic, was never very profitable.

² The impossibility of preventing goods, when entering the S.M.R. Zone free of customs, from being smuggled out again into Manchukuo is admitted by the *Manchurian Daily News*, cf. *Monthly Supplement*, Oct. 1, 1932.

market has dominated that at other ports, recently sugar imported into Shanghai from the South has been undersold by sugar imported there from Manchurian and North China ports.¹ There seems to be no reason why other commodities which have escaped duty payment in Manchuria should not be sold in North China on a similarly cheapened basis. It is interesting in this connexion to recall that the British Chamber of Commerce correspondent in Mukden recently stated that Chinese tax collectors feel that they are collecting taxes for the Japanese and are therefore very lax in watching the returns.²

Transport facilities at Harbin have been seized by Japanese companies which have raised the stevedore rates and at the same time arranged for a rebate on Japanese goods. British companies in Manchuria have hitherto done a considerable part of the country's insurance business, but in many cases this has now passed to Japanese companies. The gradual control of banking facilities by Japanese concerns, or even by the new 'state' bank, is likely seriously to affect the insurance business of British and American firms, as all insurance on merchandise mortgaged to such banks will in all probability go to Japanese companies. These evidences of Japanese economic policy are not encouraging for those who were of the opinion that the new political régime in Manchuria would maintain law and order in Manchuria and thus provide increased opportunities of trade for all countries.

¹ Based on information kindly supplied by the China Association.

² Cf. *British Chamber of Commerce Journal*, October 1932, 'Taxation in China.'

DOCUMENT IX
A SECURITY PACT FOR THE PACIFIC AREA¹

YASAKA TAKAKI

Professor of Constitutional History and Diplomacy, Tokyo Imperial University

and

KISABURO YOKOTA

Professor of International Law, Tokyo Imperial University

WE propose that the Powers in the Pacific area should conclude a treaty of security and pacific settlement of disputes which we shall call hereafter the Security Pact of the Pacific. We fully recognize certain difficulties with which the Powers concerned may be confronted in adopting the Pact. But we are firmly convinced at the same time of the absolute necessity of concluding such a treaty if we want to set up effective peace machinery in the Pacific at all. The following may serve at least as an indication of the essential principles along which a security treaty should be concluded some day in the future, if not immediately.

Another objection which may be raised against the Pact is that it has not fully taken into consideration the special circumstances of the Pacific area resulting from the coexistence of states of quite different types. We acknowledge that the present Pact is formulated along the same lines as the ordinary peace machinery, that is, as that which has been adopted in Europe, America, and other parts of the world. But we believe that the peace machinery to be built up in the Pacific cannot but follow the same direction as the ordinary one, at least in regard to the fundamental principles. No other principles are at all conceivable. It is true that existing peace machinery did not work well in the case of the Sino-Japanese Dispute. But it would be too hasty to judge the whole value of peace machinery by a single case. If it is not in the weakness of its leading principles that the existing machinery has been defective, it seems that we need not change its fundamental principles nor deviate from them, but rather develop them further in the same direction as they have hitherto taken. Thus we propose that a treaty should be concluded, in which all the fundamental principles of the existing peace machinery in the Pacific area are embodied in a more developed and organically combined form.

¹ Part II, abridged (by omission of quoted treaty provisions), of *Some Considerations on the Future Reconstruction of Peace Machinery in the Pacific*. For a fuller argumentation of this very tentative proposal see Introduction, pp. 12-13.

Before taking up the Security Pact, it would be well to consider once more the paramount importance of machinery for the peaceful readjustment of existing economic inequalities and political injustices in the world, especially in the Pacific area. It has been fully brought to light that there do exist a number of economic inequalities and political injustices in this part of the world; that if left alone they will necessarily lead some day or other to a catastrophe; that the machinery for the mere maintenance of the *status quo* is, therefore, not enough to keep the peace effectively; and that it is absolutely necessary to devise some procedure to modify peacefully the *status quo* and to readjust the existing economic inequalities and political injustices. That is why we suggest the convocation, periodically if possible, of a conference of the Pacific Powers along somewhat similar lines to the Pan-American Conferences. Though we do not work out this procedure in detail, we are, nevertheless, fully aware of its great significance. Indeed, one cannot overestimate its importance. In comparison with it, the proposed Security Pact is of secondary importance, for it is better and more desirable to remove the causes of disputes before they arise, than to settle the disputes after they have already arisen. Prevention is always better than cure.

THE PROPOSED PACT

1. *Contracting Parties.*

The High Contracting Parties to the Pact shall be the United States of America, China, France, Great Britain, Japan, and the U.S.S.R.¹

2. *Non-Aggression.*

Article 1

The High Contracting Parties undertake to respect the territorial integrity and political independence of one another.

COMMENT

The same or similar provision is contained in the Covenant of the League of Nations (Art. 10), the Nine Power Treaty concerning China (Art. 1), the Four Power Treaty (Art. 1), and the Non-Aggression Treaties concluded by the U.S.S.R.

Article 2

Each of the High Contracting Parties undertakes, in regard to each of the other Parties, not to attack or invade the territory of another Contracting Party, and in no case to resort to war against another Contracting Party.

¹ In the round-table discussion it was suggested that the Parties should also include the Netherlands, Canada, Australia, and New Zealand.

This stipulation shall not, however, apply in the case of:

1. *Resistance to a violation of the undertaking contained in Art. 1 and the preceding paragraph of this article.*
2. *Action as a result of a decision taken by the Conference of the Contracting Parties to the present Pact according to Art. 4 of the present Pact.*

COMMENT

a. This wording is suggested by Art. 1 of the model collective treaty of non-aggression drafted by the League of Nations, which runs as follows:

‘Each of the High Contracting Parties undertakes, in regard to each of the other parties, not to attack or invade the territory of another Contracting Party, and in no case to resort to war against another Contracting Party.

‘This stipulation shall not, however, apply in the case of:

- ‘1. The exercise of the right of legitimate defence—that is to say, resistance to a violation of the undertaking contained in the first paragraph;
- ‘2. Action in pursuance of Art. 16 of the Covenant of the League of Nations;
- ‘3. Actions as the result of a decision taken by the Assembly or by the Council of the League of Nations or in pursuance of Art. 15, paragraph 7, of the Covenant of the League of Nations, provided that in this last event the action is directed against a State which was the first to attack.’

As the Contracting Parties to the present Pact are not all Members of the League, we cannot adopt sub-paragraphs (2) and (3) of the second paragraph of the Model Treaty as they stand. We may adopt, however, sub-paragraph 3 in a form adapted to the present Pact (Art. 2, sub-paragraph 2 of the proposed Pact). China, France, and Great Britain may, however, as Members of the League of Nations, reserve the cases mentioned in sub-paragraphs 2 and 3 of the Model Treaty.

b. Art. 1 of the Model Treaty of Non-Aggression is, in its turn, drafted after Art. 2 of the Locarno Treaty of 1925.

The provisions, which are similar in spirit, if not in letter, are found also in the Anti-War Pact of 1928 (Art. 1), and in the Non-Aggression Treaties concluded by the U.S.S.R.

In view of the disorderly conditions prevailing in some parts of the Far East, it seems that comment should be made specifically on the intervention of a state for the protection of its nationals abroad. It is an established principle of international law that a state may intervene to protect its nationals in another country when their life and property are endangered. Owing to disorderly conditions, such intervention may be not only frequent, but even accompanied by the use of force in some cases. It is true that armed intervention is often the immediate cause of international disputes, and therefore must be avoided as far as possible. Nevertheless, it would be going too far, especially under the

present circumstances in the East, to prohibit it. We think, therefore, that armed intervention should be admitted on certain conditions which would prevent it from abuse. At any rate, the above-mentioned Article 2 is to be construed not as prohibiting categorically armed intervention, but as admitting it on certain conditions.

3. *Consultation.*

Consultation is the exchange of views among the Contracting Parties in order to take collectively such measures as are necessary to repress any violation of the treaty. It is desirable that a certain procedure should be provided for to keep the treaty from violation. It is true that consultation is not always an effective procedure for this purpose, but, as it is difficult to devise a more effective one such as, for instance, the setting up of standing machinery to propose and execute preventive measures, we think we should be satisfied with mere consultation only. Moreover, this will be sufficient, if it really operates as provided. Thus we propose as follows:

Article 3

If any violation or any danger of violation of Articles 1 and 2 of the present Pact should arise, the Contracting Parties shall communicate and consult with one another fully and frankly in order to arrive at an understanding as to the most efficient measures to be taken, jointly or separately, to meet the exigencies of the particular situation.

COMMENT

This provision is taken from the Four Power Treaty of 1922, Art. 2. A somewhat similar provision is found in the Locarno Treaty, Art. 4. The Model Treaty of Non-Aggression has a similar provision, drafted after the above-stated article.

Article 4

The Contracting Parties may hold a conference, which will examine the situation, and issue its findings. In this case, the Contracting Parties other than those engaged in conflict undertake to act in accordance with the recommendations of the conference, provided that they are concurred in by all the members other than the representatives of the Parties of the dispute.

The mere communication and consultation among the Contracting Parties is not enough to guarantee effectively the observation of the treaty. On the other hand, the Contracting Parties have no standing machinery which will be entrusted with the examination of any emergency and recommendations as to the measures to be taken to meet it.

We propose, therefore, the convocation of a conference of the Contracting Parties which will examine the question and recommend the proper measures to be taken. It will, however, not always be possible to hold a conference of this kind, so it is proposed that it *may* be held. Of course, the Contracting Parties are bound, if not legally at least morally, to give every possible support in favour of the convocation of the conference.

The text of this Article is drafted, with necessary modifications, after Art. 4, paragraphs 2 and 3, of the Locarno Treaty.

Article 5

The Contracting Parties undertake not to recognize any situation, treaty, or agreement which may be brought about by means contrary to Articles 1 and 2 of the present Treaty, pending the agreement which the parties concerned may ultimately enter into for the settlement of the dispute.

COMMENT

This is in essence what is called the Stimson or Hoover Doctrine. It was proclaimed for the first time in a note of January 7, 1932, sent by Mr. Stimson, Secretary of State, to the Governments of Japan and China. It was later adopted by the Assembly of the League of Nations in its resolution of March 11, 1932. Great Britain and France voted for the resolution. China accepted it later. Japan abstained from voting and asserted that she was not against the doctrine itself. So, on March 11, at the meeting of the General Commission which was entrusted with drafting the resolution, Mr. Sato, the Japanese representative to the League Assembly, declared, 'The Japanese Government is entirely in agreement with the fundamental principles set forth in the resolution', and it is clear from the context that the Stimson doctrine is included in 'the fundamental principles' above cited. Thus all the Contracting Parties to the Pact have accepted it, except the U.S.S.R., which may be presumed not to be against it, in view of the fact that she has concluded a number of non-aggression treaties with various European countries.

The Stimson Doctrine has great merit as an international sanction against treaty violation, as it will not involve a war between the states which adopt it and those against which it will be directed. To go to war in order to avoid a war would be a poor measure. Of course, the doctrine will not always have a great effect, because it is a sanction of a purely negative nature. But, as a rule, it will be powerful enough to keep a state from attempting to violate a treaty, for it is very difficult for any state to carry on for ever in the face of non-recognition on the part of the majority of states of the world. At the same time, it will also be

difficult for other states to keep the non-recognition policy for ever; for this policy will bring them many inconveniences. In consequence, both parties will be induced ultimately to be more conciliatory towards each other, and an international arrangement will be rendered possible. If so, the essential meaning of the doctrine would be that an international dispute is always to be solved by international arrangement, that is, international negotiation and agreement. So we propose that the doctrine be modified with the provision 'pending the agreement which the Parties concerned may ultimately enter into for the settlement of the dispute'. Such condition, moreover, has already been formulated by the Assembly of the League of Nations in its resolution of March 11, 1932. At any rate, the doctrine is a happy device to keep a treaty from being violated. It is proposed, therefore, to adopt it in the present Pact.

The wording of the doctrine is not always the same in various documents. The following may be cited here as more important examples: the note of January 7, 1932, sent by Secretary Stimson to the Governments of Japan and China; the resolution adopted by the Assembly of the League of Nations on March 11, 1932; and the note of August 3, 1932, sent by nineteen American states to Bolivia and Paraguay in regard to the Chaco dispute.

4. *Pacific Settlements of Disputes.*

Article 6

The Contracting Parties agree that the settlement or solution of all disputes or conflicts of whatever nature or whatever origin they may be, which may arise among them, shall never be sought except by pacific means.

COMMENT

This is the same provision as Art. 2 of the Pact of Paris of 1928. It seems useful to lay down the general principle of pacific settlement of all disputes. As all the Contracting Parties of the present Pact are parties to the Pact of Paris, they will have nothing against the adoption of this provision.

The Treaty of Non-Aggression between France and the U.S.S.R. may be cited here.

Article 7

Any disputes arising among two or more Contracting Parties, of whatever nature they may be, shall, when ordinary diplomatic proceedings have failed and the Parties concerned do not have recourse to adjudication by a competent tribunal, be submitted to a Permanent Conciliation Commission constituted in accordance with the next succeeding Article.

The duty of the Commission shall be to propose to the Parties an acceptable solution and in any case to present a report.

COMMENT

The procedure of conciliation has been adopted by a large number of states of the world for the pacific settlement of disputes, all the Contracting Parties of the present Pact being therein included. For instance, the U.S.A. has concluded more than twenty treaties of conciliation, mainly with European states, since 1928. The U.S.S.R. has either concluded treaties of conciliation, or inserted the clause of conciliation in many of her treaties of non-aggression with her neighbouring European states. Japan has just concluded a treaty of conciliation and arbitration with the Netherlands (April 19, 1933). China has a treaty of conciliation with the U.S.A., signed at Washington, September 15, 1914. France has a large number of treaties of conciliation with European and American states. Great Britain has also a number of treaties of this kind. Under such circumstances, the conciliation procedure may be easily adopted by the states concerned.

As to the wording of the provision, the following may be cited for example: the Treaty of Arbitration between France and the United States of America of February 6, 1928 (Art. 1); the Locarno Treaty of Arbitration and Conciliation between France and Germany (Art. 17); the Treaty of Arbitration and Conciliation between Japan and the Netherlands of April 19, 1933 (not yet made public); the Treaty of Conciliation between France and the U.S.S.R. of November 29, 1932 (Art. 1); the General Act for the Pacific Settlement of International Disputes, adopted by the Assembly of the League of Nations on September 26, 1928 (Articles 1 and 15).

Article 8

The Permanent Conciliation Commission shall be set up between every two Contracting Parties within a period of six months after coming into force of the present Pact.

The constitution of the Commission shall be as follows:

- 1. The Commission shall be composed of five members. The parties shall each nominate one commissioner, who may be chosen from among their respective nationals. The three other commissioners shall be appointed by agreement from among the nationals of third Powers. These three commissioners must be of different nationalities.*
- 2. The commissioners shall be appointed for three years. They shall be eligible for re-election.*

COMMENT

This Article is as a whole the same as Art. 4 of the General Act of 1928. The constitution of the commission above stated is that which has been adopted in most of the conciliation treaties of recent date, and may be said to be the most advanced. It is, of course, necessary that the constitution of, and the procedure in, the commission should be provided for much more in detail, when the treaty is definitely drafted. Only the more important points are stated here.

Article 9

All disputes with regard to which the parties are in conflict as to their respective rights shall be submitted for decision to an international tribunal.

It is understood that the disputes referred to above include in particular the legal disputes concerning:

- a. the interpretation of a treaty;*
- b. any question of international law;*
- c. the existence of any fact which, if established, would constitute a breach of an international obligation;*
- d. the nature or extent of the reparation to be made for the breach of an international obligation.*

COMMENT

It is very important to lay down the obligation to submit disputes to arbitration or judicial settlement; for it is the last means which must be resorted to when all other pacific means have failed. The general tendency of recent arbitration treaties is that all the legal disputes are to be submitted to arbitration. We therefore propose to have this principle embodied in the present Pact.

It would not be out of place to remark on the possibility of the Contracting Parties to the present Pact accepting the above-mentioned obligation. France and Great Britain will not find any difficulty in accepting it, for they have already accepted the same obligation in other treaties. (For instance, both states: the Statute of the Permanent Court of International Justice (Art. 36, paragraph 2), the General Act of 1928 (Art. 17); France: the Locarno Treaty of arbitration and conciliation between her and Germany (Art. 1), and many other arbitration treaties.) The United States of America will not find much difficulty in accepting the obligation, for she has also accepted it in substance, though not in letter, by virtue of her recent treaties of arbitration. China has one treaty of arbitration with the U.S.A. in which she has accepted the obligation in principle. Japan has concluded a treaty of arbitration with

the Netherlands, in which she has also accepted the obligation to submit the legal dispute to arbitration or judicial settlement. As to the U.S.S.R., it seems that she has concluded no treaty of arbitration, and consequently has no obligation whatever to submit any dispute to arbitration or judicial settlement. But, taking into consideration the fact that she has recently concluded many treaties of non-aggression and conciliation, it seems that she is determined to settle all her international disputes by pacific means. It may be presumed, therefore, that she may be induced to agree to resort to arbitration as the last means, for there is no alternative which may be resorted to, when all other pacific means have failed to solve a dispute. We come thus to the conclusion that, though some of the Contracting Parties to the present Pact may find certain difficulties in accepting the obligation in question, it will not be altogether impossible for them to adopt the provision. At any rate, we must emphatically stress the point here that if any effective peace machinery is to be set up in the Pacific area at all, it is absolutely necessary that the obligation to submit at least the legal disputes to arbitration or judicial settlement should be accepted by all the Pacific Powers. We do not oppose, however, the contention that some reservations should be made to the obligation in question. While we do not encourage it at all, we realize the almost insurmountable difficulties in refusing it. Under such circumstances, we might suggest following the example set up by the General Act of 1928, and limiting the reservations to be made to certain well-defined categories of disputes. The following disputes may be mentioned as examples: disputes arising out of facts prior to the conclusion of the present Pact; disputes concerning a particular regional understanding, such as the Monroe Doctrine; disputes concerning territorial status; and disputes concerning certain regions, the welfare and integrity of which constitute a special and vital interest for the peace and safety of a state (with reference to the last class of dispute, see the note of the British Government of May 19, 1928, which made a similar reservation with regard to the Pact of Paris).

As to the similar provisions already adopted in treaties, the following may be cited: the Covenant of the League of Nations (Art. 13); the Statute of the Permanent Court of International Justice (Art. 36, paragraphs 2 and 4); the Locarno Treaty of Arbitration and Conciliation between France and Germany (Art. 1); the General Act for the Pacific Settlement of International Disputes of 1928 (Art. 17); the Treaty of Arbitration between the U.S.A. and France, of February 6, 1928, (Articles 2 and 3). All the treaties of arbitration recently concluded by the U.S.A., which are more than twenty in number, contain a similar provision to that stated above. The Treaty of Arbitration between

China and the U.S.A. of June 27, 1930, has also a similar provision (Articles 1 and 2), as has also the Treaty of Arbitration and Conciliation between Japan and the Netherlands of April 19, 1933 (not yet made public).

Article 10

The international tribunal to which the dispute is submitted shall be either the Permanent Court of International Justice or the Permanent Court of Arbitration at The Hague or an arbitral tribunal to be established ad hoc. When the parties fail to agree as to the tribunal to which the dispute shall be submitted, either party may bring the dispute by a direct application before the Permanent Court of International Justice.

Unless the parties to the dispute agree otherwise, the arbitral tribunal to be established ad hoc shall be constituted as follows: the tribunal shall be composed of five members. The parties shall each nominate one judge, who may be chosen from among their respective nationals. The three other judges shall be appointed by agreement from among the nationals of third Powers. These three judges must be of different nationalities.

COMMENT

The U.S.A. and the U.S.S.R. are not parties to the Statute of the Permanent Court of International Justice, though the former has signed the Protocol concerning the adhesion of the U.S.A. to the Statute. They will, therefore, find some difficulty in accepting this provision. But, as the Permanent Court of International Justice is the most perfect international tribunal, it is desirable that the Contracting Parties undertake to bring the dispute before it, when they have not been able to come to agreement as to the tribunal to which the dispute is to be submitted.

As to the constitution of the arbitral tribunal to be established *ad hoc*, the proposed one is that which has been adopted widely in recent days, and which may be said to be the most advanced. The Contracting Parties will not hesitate to adopt it, for they have already agreed in other treaties to set up the same or a similar tribunal.

APPENDIXES

APPENDIX I
LIST OF CONFERENCE MEMBERS, OBSERVERS,
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APPENDIX II

DATA PAPERS PRESENTED TO THE ROUND TABLES¹

AMERICAN GROUP

Studies in Economic Conflict and Control

- EDWARD C. CARTER, *Introduction* (10 pp.)
BARNABAS BRYAN, JR., *Petroleum Control in the United States* (36 pp.)
H. E. ERDMAN, *California Fruit Growers' Exchange* (40 pp.)
DAVID WEEKS, *American Irrigation Policies* (26 pp.)
JOSEPH BARNES, *Government Promotion of Foreign Trade in the United States* (39 pp.)
ROYAL N. CHAPMAN, *Co-operation in the Hawaiian Pineapple Business* (15 pp.)
A. L. DEAN, *Co-operation in the Sugar Industry of Hawaii* (21 pp.)
E. G. MEARS, *Regulation and Promotion of Pacific Shipping* (71 pp.)
C. JUDKINS, *Trade Associations in the United States* (33 pp.)
E. S. HASKELL, *Stabilization Operations of the Federal Farm Board* (48 pp.)
JAMES W. ANGELL, *Financial Foreign Policy of the United States* (prepared for the Second International Studies Conference, London; 146 pp.)
PERCY W. BIDWELL, *Tariff Policy of the United States* (prepared for the Second International Studies Conference, London; 126 pp.)
HEBER HARPER, *Study of International Relations in the Public Schools of the United States* (mimeographed, 48 pp.)

AUSTRALIAN GROUP

- Captain R. S. WALTON, *Shipping in the Pacific* (mimeographed; 9 pp.)
A. H. CHARTERIS, *The Mandated Territory of New Guinea; A Note on the New Guinea Act, 1932* (mimeographed; 15 pp.)
MARGOT HENTZE and S. H. ROBERTS, *Labour Conditions in the Mandated Territory of New Guinea* (mimeographed; 33 pp.)
F. W. EGGLESTON, 'State Policy and Development' (Chapter VIII of *The Peopling of Australia*; proof)
H. A. MULLET and S. M. WADHAM, 'Food Supply from the Point of View of Population' (Chapter VI of *The Peopling of Australia*; proof)
F. R. E. MAULDON, W. I. POTTER, and A. G. WHITLAM, 'Markets and Marketing in Relation to Population Absorption' (Chapter V of *The Peopling of Australia*; proof)

¹ The documents listed were officially recommended by the respective national groups, and by the Central Secretariat, for the use of members in preparing for round-table discussions, although not in every case were copies available in sufficient numbers for distribution to all the members. In addition, other documents—for the most part official reports and other relevant literature published within the previous biennium, as well as charts and maps especially prepared for the use of conference members—were placed in the conference reference library.

DATA PAPERS PRESENTED TO THE ROUND TABLES 461

- G. PACKER, 'Population Absorption and the Standard of Living' (Chapter IV of *The Peopling of Australia*; proof)
- J. B. BRIDGEN, 'Secondary Industry in Relation to Population Absorption' (Chapter III of *The Peopling of Australia*; proof)
- F. W. EGGLESTON, *Post-War Instability and the Problem of Planning* (mimeographed; 83 pp.)
- A. H. CHARTERIS, *The Administration of Nauru Island* (mimeographed; 14 pp.)

BRITISH GROUP

- Notes on Raw Materials in the Far East and Pacific Dependencies* (Study Groups Department, Chatham House; mimeographed; 118 pp.)
- Notes on the Textile Industry in Lancashire, India, China, and Japan* (Study Groups Department, Chatham House; mimeographed; 91 pp.)
- Notes on the Economic Consequences of Recent Events in Manchuria* (Study Groups Department, Chatham House; mimeographed; 29 pp.) See p. 422.
- O. L. LAWRENCE and G. H. PALMER, *The Economic Consequences of Oltuwa in the Pacific Dominions* (40 pp.)
- O. M. GREEN, *The Organization of News from the Far East* (mimeographed; 12 pp.)
- H. A. WYNDHAM, *Native Education* (first volume of a series on 'Problems of Imperial Trusteeship'; London, 1933; 264 pp.)

CANADIAN GROUP

- Canadian Papers* (99 pp.)
- W. A. MACKINTOSH, *Canadian Tariff Policy*
- K. W. TAYLOR, *The Results of the Imperial Economic Conference in Relation to the Trade of Countries which are Members of the Institute of Pacific Relations* See p. 396.
- J. M. MACDONALD, *Statistical Outline of Canada's Trans-Pacific Trade*
- STEVEN CARTWRIGHT, *The Participation of the State in the Wheat Industry of Canada*
- D. W. BUCHANAN, *Planned Beet-sugar Production in Alberta*
- R. H. COATS, *Trade of Canada with Asia, Oceania, Alaska, Mexico, and Countries of Central and South America on the Pacific Ocean* (45 pp.)

CHINESE GROUP

- SIAO-MEI DJANG, *The Position of China as a Producer of Raw Materials and a Consumer of Manufactured Products* (45 pp.)
- CHIEN TSAI and KWAN-WAI CHAN, *Trend and Character of China's Foreign Trade, 1912-1931* (53 pp.)
- W. H. WONG, *The Distribution of Population and Land Utilization in China* (11 pp.)
- C. L. NIEH, *China's Industrial Development: Its Problems and Prospects* (53 pp.)
- GIDEON CHEN, *Chinese Government Economic Planning and Reconstruction since 1927* (56 pp.) See p. 353.

462 DATA PAPERS PRESENTED TO THE ROUND TABLES

- H. D. FONG, *Rural Industries in China* (68 pp.) See p. 299.
CHEN HAN-SENG, *The Present Agrarian Problem in China* (32 pp.) See p. 271.
D. K. LIEU, *A Preliminary Report on Shanghai Industrialization* (68 pp.)
D. K. LIEU, *The Silk-reeling Industry in Shanghai* (142 pp.)
LOWE CHUAN-HUA, *Facing Labour Issues in China* (211 pp.)

FRENCH GROUP

- ROGER LÉVY, *Communications with the Far East* (mimeographed; 31 pp.)
ÉTIENNE DENNERY, *The Economic Relations of French Indo-China* (mimeographed; 31 pp.)

JAPANESE GROUP

- KENZO TAKAYANAGI, *Comparative Study of Boycotts*
Preliminary Considerations (59 pp.)
Part I, *The Historical Development of Chinese Boycott, Book I, 1834-1925*
(112 pp.)
Part II, *Economic Effects* (32 pp.)
Part III, *Juridical Analysis* (101 pp.)
TEIJIRO UYEDA, *Recent Changes in the Japanese Tariffs* (16 pp.)
MASAMICHI ROYAMA, *Control of the Electric Power Industry in Japan* (15 pp.)
TEIJIRO UYEDA, *Future of the Japanese Population* (26 pp.)
MITSUTARO ARAKI, *Financial System in Japan* (60 pp.)
Control of Industry in Japan (prepared by the Staff of the Tokyo Institute
of Political and Economic Research; 20 pp.) See p. 224.
YASAKA TAKAKI and KISABURO YOKOTA, *Some Considerations on the Future
Reconstruction of Pacific Machinery in the Pacific* (33 pp.) See p. 441.
Supply of Raw Materials in Japan (prepared by the Staff of the Tokyo
Institute of Political and Economic Research; 23 pp.)
SEIICHI TOBATA, *Control of the Price of Rice* (53 pp.)
Communications (prepared by the Staff of the Tokyo Institute of Political
and Economic Research; 46 pp.)
TADAO YANAIHARA, *Japan's Mandate in the South Seas* (mimeographed;
12 pp.)

NEW ZEALAND GROUP

- R. G. HAMPTON, *Export Control Boards in New Zealand* (18 pp.)
W. A. CURZON-SIGGERS, *The Position of New Zealand in Relation to the
Statute of Westminster* (16 pp.)

PHILIPPINE GROUP

- JOSE MA. ESPINO, *The American Tariff Policy in the Philippines* (12 pp.)
CORNELIO C. CRUZ, *Philippine Demography from the Geographic Point of
View* (18 pp.) See p. 383.
ENCARNACION ALZONA, *The Social and Economic Status of Filipino Women,
1565-1932* (33 pp.)

CENTRAL SECRETARIAT

FREDERICK J. FIELD, LIU YU-WAN, and SABURO MATSUKATA, editors,
Economic Handbook of the Pacific Area (mimeographed; 181 pp.)

C. F. REMER, *Foreign Investments in China* (New York, 1933; 708 pp.)

PHILIP G. WRIGHT, *Trade and Tariffs of Certain Pacific Countries* (279 pp.)

CARL L. ALSBERG, *Land Utilization Investigations and their Bearing on International Relations* (29 pp.)

P. W. MARTIN, *Some Social Aspects of World Economic Planning* (contributed by the International Labour Office, Geneva; 38 pp.)

Unemployment and Public Works Policies in Pacific Countries (contributed by the International Labour Office, Geneva; 28 pp.)

A Guide to the Banff Discussions (18 pp.)

The Purpose and Conduct of Round Tables (14 pp.)

A Research Programme in the Pacific Area (35 pp.)

APPENDIX III

THE CONFERENCE PROGRAMME¹

MONDAY, AUGUST 14

- 3.00–5.00. Opening session
Address of welcome: Sir ROBERT FALCONER, President, Fifth Biennial Conference
Response: JEROME D. GREENE, Chairman, Pacific Council
Conference Announcements: CHARLES F. LOOMIS, Acting General Secretary
Outline of round-table organization: GEORGE W. SMITH, for the Conference Secretariat
Address, 'The Background of the Banff Conference': W. L. HOLLAND, Research Secretary
- 6.30–9.30. Dinner to members of the conference given by the Canadian Institute of International Relations
Chairman: Hon. NEWTON ROWELL, K.C.
Speakers: HU SHIH, Sir HERBERT SAMUEL, INAZO NITOBÉ, NEWTON D. BAKER
Reception

TUESDAY, AUGUST 15

- 9.00–10.30. Four round tables on 'International Economic Conflict in the Pacific Area: Its Control and Adjustment'
- 10.45–12.15. Continuation of round tables

WEDNESDAY, AUGUST 16

- 9.00–10.30. Four round tables continued
- 10.45–12.15. Four round tables continued
- 4.30–6.00. Special round table on 'The Dissemination of Information in the Pacific'
- 8.30–9.35. 'Currency and Financial Problems of the Pacific Area'
Address: Professor T. E. GREGORY
Discussion

THURSDAY, AUGUST 17

- 9.00–10.30. Continuation of four round tables on 'International Economic Conflict in the Pacific Area: Its Control and Adjustment'
- 10.45–12.30. General session:
Summaries of discussions by round-table secretaries
Discussion

FRIDAY, AUGUST 18

- 9.00–10.30. Four round tables continued
- 10.45–12.30. Four round tables continued

¹ For detailed syllabus of round-table discussions, see Appendix IV, p. 467.

8.30–10.00. General session: 'Purposes and Prospects of the American National Recovery Act'

Addresses by H. G. MOULTON, LEWIS L. LORWIN, PAUL SCHARRENBURG, CARL L. ALSBERG

SATURDAY, AUGUST 19

9.00–10.30. Continuation of four round tables on 'International Economic Conflict in the Pacific Area: Its Control and Adjustment'

MONDAY, AUGUST 21

9.00–10.30. Four round tables continued

10.45–12.15. Four round tables continued

4.30–6.00. Special round table of economists on 'Currency Problems'

TUESDAY, AUGUST 22

9.00–10.30. Four round tables continued

10.30–11.00. Business meeting

11.00–12.15. Four round tables continued

8.15–10.00. General Session: 'The American National Recovery Act and its International Implications'
Discussion

WEDNESDAY, AUGUST 23

9.00–12.15. General Session:
'International Economic Conflict in the Pacific Area: Its Control and Adjustment'

Final summaries by round-table chairmen

Discussion

Introduction to second main topic of the Conference,

'Problems of Education': W. L. HOLLAND, Research Secretary

4.00–6.00. Special round table on 'Currency Problems' continued

Special round table on 'Questions of International Law'

7.15. Dinner given by the Government of the Province of Alberta

Chairman: The Hon. ACTING PRIME MINISTER OF ALBERTA

Speakers: Sir ROBERT FALCONER, K.C., P. C. CHANG, The Lord SNELL, YUSUKE TSURUMI, JAMES T. SHOTWELL

THURSDAY, AUGUST 24

9.00–10.30. 'Problems of Education'

Two round tables

Continuation of one round table on 'International Economic Conflict in the Pacific Area'

10.45–12.15. Continuation of round tables

4.00–6.00. Special round table on 'Methods of Economic Adjustment and Control in the Pacific Area'

THE CONFERENCE PROGRAMME

Special round table of educational specialists on 'Problems of Formal Education in the Pacific'

9.00-10.00. Special round table on 'International Law' continued

FRIDAY, AUGUST 25

9.00-10.30. Continuation of two round tables on 'Problems of Education'

10.45-12.15. Two round tables continued

4.00-6.00. Special round table on 'The Dissemination of Information in the Pacific' continued

Special round table on 'Methods of Economic Adjustment and Control' continued

SATURDAY, AUGUST 26

9.00-10.30. General Session:

Summaries of special round tables, by chairmen

Summary of general round tables on 'Problems of Education', by chairmen

Discussion

10.45-12.15. General Session:

'Critique of the Conference and of the Institute; Suggestions for the Future'

Discussion

7.00. Dinner and closing session

Chairman: JEROME D. GREENE, Chairman of the Pacific Council

Addresses: EDGAR J. TARR, Hon. WM. DOWNIE STEWART, Sir JOHN POWER, EDWARD C. CARTER, Sir ROBERT FALCONER

SOCIAL PROGRAMME

In addition to the two special dinners mentioned, the Canadian Institute of International Affairs provided for members of the conference a varied programme of entertainments, the more appreciated since it permitted glimpses of the rich cultural life and achievements of the Dominion, as well as receptions by outstanding Canadians. Included in this programme were exhibits of Canadian painting and folk art, of the little theatre movement, and of vocal and instrumental ensemble music. The outdoor events included a buffalo barbecue and an Indian race and festival. A swimming gala rounded out the many opportunities afforded by the natural setting of Banff for athletic activities.

APPENDIX IV

ROUND-TABLE SYLLABUS

I. INTERNATIONAL ECONOMIC CONFLICT IN THE PACIFIC AREA: ITS CONTROL AND ADJUSTMENT

1. What types of conflict are there in the international economic relations of the Pacific area?

Consider the essential characteristics of international conflict in the Pacific by discussing (a) numerous specific examples of conflict, and (b) some arrangement or classification which will reveal types of conflicts and their characteristics.

It is recommended that illustrations of conflict be drawn entirely from the Pacific area and in so far as possible from cases described in the conference documents. Attached to this syllabus will be found an index to the main conflicts mentioned in the data papers. Inasmuch as these papers do not pretend to cover the entire field, it will be necessary for round tables to consider certain cases of conflict not mentioned in the documents, especially when these cases are needed to reveal essential characteristics and types. The round tables may consider such questions as:

What conflicts primarily concern markets?

What conflicts primarily concern raw materials?

What conflicts primarily concern food-supplies?

What conflicts primarily concern fields of investment?¹

What conflicts primarily concern population outlets?

2. Why do the types of conflict revealed in 1 occur? What are the major causes of conflict?

It has been the intention of question 1 to describe important conflicts in the Pacific and to arrange these into some sort of intelligible order or classification. The purpose of question 2 is to discover the major causes of these economic difficulties, to estimate their importance, and to under-

¹ Agenda for Special Round Table on Currency Problems:

- A. What are the outstanding currency problems in the Pacific area?
- B.
 1. What efforts are being made by various countries in the Pacific area to bring about a rise in prices?
 2. What is meant by inflation? Under what conditions does it tend to get beyond control?
 3. Is there evidence of deliberate governmental efforts to depreciate currencies? If so, by whom and when?
 4. Is the mode whereby a rise in prices is secured of determining importance in estimating the probable effects?
- C. In what respects is stabilization desirable? What criteria should guide the statesman in determining the proper level? In view of the present situation in the Pacific, when and at what levels should the major currencies be stabilized? On what basis, e.g. gold standard, gold exchange standard, bimetallism? Can stabilization of currencies be achieved without co-ordination, e.g. of central bank policies, public works programmes, tariffs, &c.?

stand their development and interaction. The round tables may consider such questions as:

A. To what extent are disparities in standards of living a cause of these conflicts?

In how far has the growth of population in certain countries caused or accentuated conflicts?

In how far have the economic policies of various countries led to international conflicts? Examples of these policies are: protective tariffs, quotas, subsidies, the N.R.A., boycotts.

To what extent have the economic policies of organized groups such as trade associations and cartels accentuated conflict?

To what extent have the political situations in the various countries of the Pacific contributed to international economic conflict?

Has the industrialization of new areas caused or accentuated conflicts and if so how?

To what extent has dependence on external sources of raw materials and foodstuffs led to conflict?

In how far has the desire for trade expansion in foreign markets produced conflict?

To what extent have currency problems and capital movements contributed to conflicts?

B. Is it possible to discover whether there be some underlying cause or causes behind the factors mentioned above, such as capitalism and the profit motive, nationalism and mass psychology?

3. What important methods have been practised for dealing with international economic conflicts?

The purpose of this and the succeeding questions is to shift the attention of the round tables from the statement and analysis of conflict itself to the positive measures for dealing with it. It is recommended that a useful way of considering these measures is to classify them as primarily international or national in scope, and within each of these divisions as carried out principally by private enterprise or by governments.

A. By international action:

(a) within the sphere of private enterprise:

In what manner do business enterprises try to handle conflicts themselves? How do such measures of joint action as gentlemen's agreements and cartels or pools actually operate? How do international trusts settle controversies?

(b) by governments:

When government assistance is obtained, what forms of international settlement are available? How and by whom are commodity agreements, commercial treaties, &c., drafted and negotiated? When do these take the form of economic blocs? To what extent in various countries is the initiative for controlling conflict taken by private enterprise or by governments?

B. By the action of single nations or economic blocs:

(a) within the sphere of private enterprise:

In what ways do business enterprises deal with international economic conflict by independent action? What essential characteristics differentiate these measures from those which are international?

(b) by governments:

In what ways do the various nations deal with conflict by purely national action? What forms do such measures usually take in the Pacific area, e.g. governmental monopolies, retaliatory tariffs, quota regulations, embargoes, exchange restrictions, anti-dumping laws and regulations, controls over the export of capital, or resort to military action?

In what ways do the various nations strengthen their position in an economic conflict by forming economic blocs with each other?

4. To what extent have these methods been effective? What are the limitations of their scope?

The purpose of this question is to call forth a critical analysis of the measures for dealing with conflict that the round tables have described under question 3. It is suggested that the distinction between measures which are primarily international and those which are national or have to do with national blocs be retained, but that the following questions have reference to both private and government action.

A. International methods:

What methods have been tried and failed? What were the reasons for their failure?

What methods have proved successful, and wherein lay their success?

Under what circumstances is international action resorted to?

What distinctions can be made between private and governmental measures? Under what circumstances is one resorted to rather than the other? In what ways do governments and private enterprise work together?

When can private enterprise successfully elicit government support? How do circumstances in various countries differ in this respect?

B. Action of single nations or of economic blocs:

Under what circumstances are measures undertaken by single nations or by blocs of nations or by private groups within those nations in distinction to purely international action?

Why do some countries readily resort to international action while others rely primarily on national measures?

Why does the form of national and economic bloc action differ so considerably among the different nations or blocs in the Pacific?

What are the effects of national or bloc action on international economic conflict?

- C. With respect to all the foregoing, can general principles be established for the success or failure of methods of controlling international economic conflict? To what extent are many of the important solutions of an *ad hoc* character?

How far has success depended on established relationships (economic, political, or cultural) between particular countries and groups? How far has failure been caused by traditional antagonisms?

How far can the causes of economic friction in the Pacific area be removed independently of the solution of world economic problems?

5. To what extent do the economic and political forms and methods of control and adjustment discussed in questions 3 and 4 hinder or facilitate desirable economic processes?

6. Which of the methods or practices mentioned or what others should be developed to provide for more desirable international economic relations?

It is recommended that a syllabus for dealing with these two questions be prepared by the chairmen and secretaries in the light of the discussions in each round table.

II. PROBLEMS OF EDUCATION

A. Public Opinion and Economic Conflicts.

1. To what extent are the various agencies in the formation of public opinion, such as newspapers, radio broadcasting, the cinema, organized groups, schools and colleges, aggravating or mitigating economic conflicts in the Pacific area?

2. To what extent are economic maladjustments influenced by or derived from the lack of knowledge of actual conditions on the part of the public?

3. How effective is public opinion in the different Pacific countries in directing the economic policy of these countries?

B. Education in Relation to Economic Demands and Welfare.

1. Are the educational processes in the various countries adequately adjusted to the economic conditions?

2. Is education sufficiently concerned with the directing of the economic demands of the people towards fundamental necessities, such as, for example, adequate nutrition, health and housing, clothing and medical care?

3. Does a sense of material values occupy an exaggerated place in certain educational processes and so embitter economic conflicts?

4. By what means may the traditional skills in the arts and crafts, inherited from an earlier economy and of importance to the livelihood of the peoples, be preserved, protected, or re-adapted to present-day requirements?

- C. What subjects in the fields of education, public opinion, and cultural relations may be profitably investigated during the next two years to advance the studies of the Institute?

APPENDIX V

THE INSTITUTE'S INTERNATIONAL RESEARCH PROGRAMME

THE International Research Committee of the Institute of Pacific Relations is a permanent committee of its governing body, the Pacific Council. It is charged with the responsibility for planning the principal research activities of the Institute, for administering the special funds entrusted to the Institute—at present in their entirety by the Rockefeller Foundation—for an international programme of research in the social sciences, and for enlisting the co-operation of research institutions and individuals in the execution of its programme.¹

PRINCIPLES OF RESEARCH POLICY

In a series of meetings held before and during the Banff Conference, the Committee reaffirmed the general principles of research policy laid down at the Kyoto Conference² and added several new points in clarification of its own procedure. Briefly, research projects, to commend themselves to the Committee, must be of a concrete character and must bear with a fair degree of immediacy on the international relations of Pacific countries; usually they should deal with problems that are, or are likely to become, subjects of international controversy. Projects should be susceptible of completion, or the rendering of a definite progress report, within a period of two years; they should be of a nature to involve co-operation between several National Councils for their completion, even though substantial parts may be entrusted to individual scholars or National Councils. Financial grants are made subject to the general condition that an equal amount is provided by the recipient from other sources; from 1933 to 1934 on, these outside contributions must be one and a half times the amount of the grant made, but the chairman and secretary of the Committee have power to waive or alter this condition in exceptional cases.

New research projects started in a given two-year period will henceforth be confined within a few selected fields of study (Standards of Living and Cultural Relations for 1933-5). One of the Committee's chief functions is to select and define these fields of study and the projects selected within their respective scope; but it also continues to give due consideration to individual

¹ Among the institutions participating in the programme of research further described below are the London School of Economics, the University of Nanking, the Nankai Institute of Economics, the International Labour Office, the Social Science Research Council (U.S.A.), the Brookings Institution, the Scripps Foundation for Population Research, the Milbank Memorial Fund, the Food Research Institute, the China Foundation, the American Geographical Society, the Australian Council for Scientific and Industrial Research, the Tokyo Institute of Political and Economic Research, and a number of universities and government bureaux.

² See *Problems of the Pacific*, 1929, pp. 652-6. For a detailed recent statement of research policy and programme see *Pacific Affairs*, October 1933, p. 503 *et seq.*

projects endorsed by National Councils, especially when these can be fitted into the general plan. While in the past projects passed upon by the International Research Committee have largely been considered from the point of view of their relevancy to subsequent conference programmes, this relationship is no longer stressed, so far as projects financed from the international fund are concerned; studies mainly undertaken in order to implement the biennial conferences now fit more frequently into the separate study programmes of the National Councils.

THE INTERNATIONAL RESEARCH PROGRAMME

At the Banff Conference, the International Research Committee set aside \$13,500, out of the unexpected funds of the 1932 budget, for the completion of studies previously authorized, and added \$3,000 a year for the next two years as a publication fund. The balance of the Institute's research funds, estimated at a minimum of \$32,000 a year, was allocated for the 1934-5 period to finance research in the two major fields already named: Standards of Living and Cultural Relations. The following data concerning projects in process of completion, in progress, and being planned represent therefore not so much the present policy of the International Research Committee as its development: some of the earlier projects now entering the stage of completion and publication do not correspond to a rigorous application of the policies defined at Banff.

a. Completed Projects.

At the Banff Conference the International Research Committee was able to present the following studies completed under its auspices.

1. *International Economic Relations in China.* This project, entrusted to Professor C. F. Remer, of the University of Michigan, has been carried out in close collaboration with the research committees of the Institute's National Councils in China, Japan, Great Britain, and the United States. The report was published in New York, in 1933, with the title *Foreign Investments in China*.
2. *The Geography of China.* This study, undertaken by Professor George B. Cressey, of Shanghai College and later Clark University, was completed in 1931. Publication was interrupted by the destruction of the Commercial Press, Shanghai, during the hostilities of 1932. With a supplementary grant for publication, the work since appeared in New York, in 1933, under the title, *China's Geographic Foundations*.
3. *Agriculture and Industry in China.* The study by Professor R. H. Tawney, of the London School of Economics, first made available as a memorandum to the members of the Institute's Shanghai Conference, has since been published in a revised and enlarged form under the title, *Land and Labour in China* (London, 1932; New York, 1933).
4. *Land Utilization in Japan.* The preliminary report on this subject submitted by Professor Shiroshi Nasu, of Tokyo Imperial University, at

the Kyoto Conference in 1929, has been revised and will be published in 1934.

5. *Land Utilization in Korea.* This study, made by Mr. Hoon K. Lee, of Union Christian College, Seoul, Korea, has been completed and will be used by Dr. Carl L. Alsberg, of Stanford University, in a co-ordinating report on the various studies undertaken as part of the inclusive project of research in Land Utilization in the Pacific area. The manuscript will also, after revision, be published in 1934.
6. *Industrialization in Tientsin.* This work, which has been carried out by Dr. Franklin L. Ho and Dr. H. D. Fong, of Nankai University, was commenced in 1929 and brought to a close in 1932 with the publication of the final report—a two-volume monograph on the Chinese Cotton Industry by Dr. Fong.

b. Projects in Process of Completion.

Several studies, in process of completion or revision at the time of the Banff Conference, likewise were scheduled for early publication or other appropriate treatment.¹

7. *Land Utilization in Australia.* This project, entrusted at the Shanghai Conference to the Australian Council, and administered by a committee of three members of that Council, Dr. G. L. Wood, Dr. H. L. Mauldon, and Professor S. M. Wadham, has been carried out in co-operation with the Australian Council for Scientific and Industrial Research. A report will be made in 1934. A related product of Institute research in Australia, bearing upon population problems, is the second series of papers on *The Peopling of Australia*, published in Melbourne in 1933 and presented to the Banff Conference.
8. *Land Utilization in New Zealand.* A study of this subject by Professor H. Belshaw, of Auckland University College, was completed in 1932. Drafts of the chapters have been submitted to Dr. Alsberg for his co-ordinating study (see above); and a grant was made at Banff for early publication of this report by the Melbourne University Press.
9. *Japan's Industrial Development.* A report on this study, entrusted in 1929 to Professor J. Asari, of the Tokyo Office of the I.L.O., was submitted to the Research Committee at Banff by the Japan Council, and, after revision, will be published, probably in 1934.

¹ The International Research Secretary was authorized to prepare for early publication, with an introduction by Dr. Carl L. Alsberg, a group of fifteen papers presented by National Councils and prepared either by study groups or by individual investigators, under the general heading of *Commodity Control in the Pacific Area*. The subjects discussed include: The Canadian Wheat Pool, The Operations of the United States Federal Farm Board, The United States Agricultural Adjustment Administration Restrictions, Petroleum Control in the United States, Co-operation in the Hawaii Pineapple Industry, Export Control in the Netherlands East Indies, The Australian Sugar Industry, The Japanese Rice Control, Silk Control in Japan, Export Control Boards in New Zealand, Control of Primary Commodities in Australia, The International Tin Committee, The Stevenson Rubber Control Scheme in Retrospect, International Control of Fisheries.

10. *Co-ordination of Tariff Studies.* At the Shanghai Conference, the Committee requested Mr. Philip G. Wright, formerly of the Brookings Institution, Washington, D.C., to undertake a comparative study of the tariffs and trade of the principal Pacific countries. At the same time, a number of National Councils undertook to make additional studies in this field. The resulting reports, presented at Banff, and to be somewhat enlarged, or still in preparation, will, with a co-ordinative introduction, be published in 1934, under the title, *The Tariffs and Trade of Certain Pacific Countries.*
11. *Population Movement from North China to Manchuria.* Investigation of this subject was begun by Dr. Franklin L. Ho, of the Nankai Institute of Economics, in 1930, and a preliminary report was submitted to the Shanghai Conference. A grant for continuation of the study was made in 1931, but the continued disturbances in Manchuria made further field work impossible. The planned enlargement of the study has, therefore, been cancelled, and the report will be published in 1934.

c. Projects in Progress.

The following projects represent items in the International Research Committee's programme which are in various stages of progress, all of them having been authorized or completed in part prior to the 1933 Conference.

12. *Land Utilization in China.* Field investigations have for several years been proceeding in several parts of China. While paralleling similar studies in other Pacific countries, this project in China is being enriched by several subsidiary studies—a collection of data on changes in population, a study of food consumption, and a soil survey. The first of these collateral studies is sponsored by the Scripps Foundation for Population Research and the Milbank Memorial Fund, and the second by the Food Research Institute, Stanford University. In the third, the Geological Survey of China is collaborating, with aid from the China Foundation and with the assistance of two American experts.

Since the Shanghai Conference, Professor J. Lossing Buck, of the University of Nanking, who is in charge of the whole project, and members of his staff, have co-operated with the National Government in carrying out a survey of losses from flood in the Yangtze valley during 1931, and later a survey of war losses in the Shanghai area after the Japanese hostilities early in 1932.

In addition to Professor Buck's *Chinese Farm Economy* (Chicago, 1930) publications that have resulted so far from the land utilization study are *Farm Prices in Wuchin, Kiangsu*, by L. L. Chang (Shanghai, 1932) and *Rural Population and Vital Statistics for Selected Areas of China, 1929-31*, by C. M. Chiao, to be published shortly in China and the United States.

13. *Co-ordination of Land Utilization Studies.* Several references have been made to the co-ordination of the various land utilization studies in Pacific countries, undertaken by Dr. Carl L. Alsberg, of Stanford Univer-

sity, and chairman of the Institute's International Research Committee. The major part of this study has been deferred until 1934, when the national studies will be practically completed. Meanwhile, Dr. Alsberg contributed to the Banff Conference an introductory paper on the significance of land utilization studies for international relations.

14. *Comparative Study of Boycotts*. Work on this project has been carried on since 1930 by Professor K. Takanayagi, of Tokyo Imperial University. A preliminary report, in four sections, was submitted to the Banff Conference. The report as a whole, with supplementary chapters or appendices by students appointed in other member countries, is scheduled for publication in 1934.
15. *Changing Rural Social Life in Japan*. Started in 1929 and continued with a grant from the International Research Committee in 1931, this study by Professor Shiroshi Nasu, of Tokyo Imperial University, is further continued. A Progress report, in Japanese, was presented at Banff.
16. *Industrialization in Shanghai*. This project, in charge of Dr. D. K. Lieu, of the China Institute of Economic and Statistical Research, since 1930, was interrupted by the Shanghai hostilities in 1932, but not until most of the returns from numerous factories included in the study had been secured. The project has acquired an unexpected importance in that it provides the only reliable basis for estimating the extent of the industrial losses caused by the bombardment. Several reports on specific industries have been issued, and a preliminary general report on progress was submitted at Banff.
17. *Trade of the British Pacific Dominions*. This project was entrusted to Professor J. Coatman, of the London School of Economics, in 1930, and has been extended to the end of 1933. The study is being carried out by Mrs. N. Windett; and her first report, on *Australia as a Producer and Trader*, has been published (London, 1933). Later reports will deal with the trade of Canada and of New Zealand.
18. *Dependencies and Native Peoples in the Pacific*. Dr. Felix M. Keesing, of New Zealand, started on this project in 1929; the time allotted was extended for one year at the Shanghai Conference, where Dr. Keesing submitted a progress report. Field studies were made in Samoa and in the Philippines. Manuscripts of the resulting reports were submitted at Banff and will be published (London, 1934) under the titles, *Modern Samoa* and *From Headhunters to Citizens*—the latter being a study of the adaptation of the non-Christian peoples in northern Luzon to the demands of modern civilization and world relations in the Pacific. A general survey of Pacific dependencies will be completed in 1934.
19. *Co-ordination of Studies on the Status of Aliens*. This project, made possible by the completion of separate studies on the status of aliens in Pacific countries by seven of the member Councils in 1931, was assigned at first to Professor Joseph P. Chamberlain, of Columbia University, and later transferred by mutual agreement to Professor Norman MacKenzie, of the University of Toronto. The separate national studies have been

referred back to their authors for revision and completion in accordance with a questionnaire drawn up at Shanghai. Professor MacKenzie reported on the progress of these studies at Banff. Arrangements have been made for book publication about June 1934.

20. *Communications in the Pacific Area*. Under the direction of Professor Norman MacKenzie, of the University of Toronto, a questionnaire was drawn up after the Shanghai Conference and submitted to the National Councils. A progress report at Banff referred to reports received from Canada, Great Britain, China, New Zealand, and the United States. It is expected that, on the receipt of reports from the other member Councils, the co-ordinative study will be completed, and the results published, in 1934.

A number of projects, authorized at the Shanghai Conference, had been in progress eighteen months or less at the time of the Banff Conference, where progress reports on them were received from representatives of the respective national research committees. They include:

21. *District Government in North China*—Professor C. M. Chang, Nankai Institute of Economics.
22. *Silver Fluctuations and the Pacific Trade*—Professor M. Araki, Tokyo Imperial University.
23. *Japanese Dependencies and Colonial Policy*—Mr. T. Maoda and Professor Yanaihara, Japan Council. A preliminary report was circulated as a data paper at Banff.
24. *The Japanese Family System*—M. S. Saito and Professor K. Matsumiya, Japan Council.
25. *Humanism in China*—Professor Quentin Pan, on the editorial staff of *The China Critic*, Shanghai.
26. *Population Re-distribution in the Philippines*—Professor S. E. Macaraig, University of the Philippines.
27. *Armaments and Diplomatic Machinery in the Pacific*—Australian Council, in co-operation with other National Councils.

d. New Research Projects.

As has already been stated, the International Research Committee decided at Banff to concentrate new research projects in the next biennial period to the subjects of Standards of Living and Cultural Relations. It is expected that the major part of the \$32,000 a year made available for these projects in 1934 and 1935 will be expended on studies under the former general heading. The chairman and secretary of the Committee were given authority to allocate funds as may seem best among the National Councils, which will arrange to carry on the work in their respective territories.¹

Standards of Living. At Banff the International Research Committee adopted the following questions to define the areas of interest within which

¹ Up to February 1934 definite plans for standards-of-living studies have been made in Canada, Great Britain, and the United States (with a special study project in Hawaii); and the co-operation of the International Labour Office has been secured.

each National Council was requested, through its research committee, to formulate more specific plans of study.

(a) How far have differences in Eastern and Western standards of living been a really dynamic factor in international competition of recent years? It is suggested that there be a series of studies on standards of living of workers in certain selected industries of Pacific countries where products are in evident competition in international trade, e.g. cotton-textile workers, rayon workers, sugar plantation workers, and the workers of smaller industries, such as rubber manufacturers, pottery making, canned food manufacturers. The studies should also include possible methods for raising the standards of living in each country.

(b) How far and in what ways has the development of international trade affected the standard of living of Pacific countries?

(c) How far and how long have the standards of living in Pacific countries been influenced by extensions of the scope of government services, e.g. health or unemployment insurance, pensions, family allowances, municipal housing facilities, &c.? What other important non-pecuniary elements in the standards of living must be taken into account in international comparisons of standards?

(d) How far has migration affected the standards of living of selected communities in the Pacific? It is suggested that there should be a series of comparative studies on such groups as:

1. Chinese in the neighbourhood of Canton, Swatow, or Amoy, and in Malaya, Netherlands Indies, Hawaii, and the Philippines.
2. Japanese in selected prefectures of South Japan and members of the same communities in Hawaii, California, and the Philippines.
3. Filipinos in Luzon, Mindanao, Cebu, Hawaii, and California.
4. Koreans in Korea, Japan, and South-east Manchuria.
5. Chinese in Shantung and in North Manchuria.

(e) How far has population pressure manifested itself in the standards of living of Pacific countries? It is suggested that special attention be given here to the standard of living of the dominant occupational group in the country which constitutes the common labour reserve.

(f) How far has industrialization affected standards of living? How far has paucity of natural resources or raw materials in combination with increasing population influenced the development of international competition?

(g) How far and in what ways is it technically possible to make international comparisons of standards of living? It is suggested that the International Labour Office be asked to co-operate in supplying a further memorandum on methods of comparison.

(h) How far are tariff and migration policies of Pacific countries designed to influence standards of living? How far are they effective in this?

In addition to these national studies there shall be initiated immediately a study of the concept of the standard of living in economic theory. It would deal with the question: How far does economic theory give warrant to the idea that there is in a low standard of living a stimulus to competitive

efficiency? It would perhaps be supplemented by similar essays from an economist of each country or economists representing different schools of thought. As a beginning, Professor T. E. Gregory has agreed to write the first study for the British group.

Cultural Relations. A memorandum prepared by Professor J. H. Boeke, of the University of Leyden, and submitted at the Banff Conference, dealing more especially with problems of cultural relations arising from the impact of foreign cultures in the less developed sections of the Pacific and in the Pacific dependencies has been circulated to the most interested National Councils with the request to formulate and submit proposals for specific studies. In addition, efforts are being made to relate studies previously authorized (as for example projects Nos. 15, 23, 24, and 25) and specific new requests for grants from several National Councils to an inclusive plan to be elaborated later.

APPENDIX VI SUMMARY OF REVENUES AND EXPENDITURES, 1932-3

	RECEIPTS	
	1932	1933
GENERAL PURPOSES		
<i>International contributions:</i>	\$	\$
Australia	600-00	600-00
Canada	4,777-75	4,950-37
China	1,202-20	2,677-47
Great Britain	3,550-00	2,625-00
Hawaii	5,525-00	6,575-00
Japan	2,500-00	2,500-00
Netherlands—Netherlands Indies . . . . .	..	480-19
New Zealand	42-12	623-60
Philippine Islands	500-00	500-00
U.S. Mainland	22,000-00	27,500-00
<i>Other Income:</i>		
Subscriptions—Pacific Affairs	2,070-46	1,810-17
Misc. Data Papers, P.A., & Royalties	1,813-78	1,221-22
Surplus	6,521-72	1,658-37
Total	<u>\$51,103-03</u>	<u>\$53,721-39</u>
INTERNATIONAL RESEARCH FUND	50,000-00	50,000-00
Other Income	21-79	33-98
Bank balance at beginning of year	4,895-92	10,342-02
GRAND TOTAL	<u>\$106,020-74</u>	<u>\$114-097-39</u>

EXPENDITURES					
GENERAL PURPOSES					
Administration				19,485-40	21,454-43
Information—Editorial				19,334-73	14,471-79
Research Administration				3,478-65	4,327-71
Library				1,571-57	1,486-09
Conference				5,016-29	8,826-54
Capital Expenditure				558-02	141-65
Total				<u>\$49,444-66</u>	<u>\$50,708-21</u>
INTERNATIONAL RESEARCH FUND					
Expenditure				44,575-69	49,414-02
TOTAL EXPENDITURES				<u>\$94,020-35</u>	<u>\$100,122-23</u>

APPENDIX VII

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¹ Professor Inazo Nitobé, Japanese member of the Pacific Council since its formation, died at Vancouver, B.C., Oct. 15, 1933.

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